SACOSS
South Australian Council of Social Service

SACOSS' Submission to the Australian Energy Market Commission's Reliability Panel on the 2026 Reliability Standard and Settings Review

July 2025

SACOSS' Submission to the Australian Energy Market Commission's Reliability Panel on the 2026 Reliability Standard and Settings Review, 19 June 2025

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47 King William Road

Unley, SA, 5061 Australia

Ph (08) 8305 4222

Fax (08) 8272 9500

Email: sacoss@sacoss.org.au

Website: www.sacoss.org.au

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Introduction

The South Australian Council of Social Service is the peak non-government representative body for health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians*. SACOSS does not accept poverty, inequity or injustice. Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, business, and communities for actions that disadvantage vulnerable South Australians.

SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect disadvantaged and low-income consumers in South Australia. With a strong history of community advocacy, SACOSS and its members aim to improve the quality of life for people disadvantaged by the inequities in our society.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities, like water and electricity, impacts greatly and disproportionately on people experiencing vulnerability and disadvantage.

SACOSS would like to thank the Australian Energy Market Commission's Reliability Panel (the Panel) for the opportunity to provide feedback on the *2026 Reliability Standard and Settings Review Issues Paper*, (**the Issues Paper**), dated 19 June 2025.[1]

SACOSS strongly supports the submission of the Justice and Equity Centre (JEC) to this consultation. We agree there is no evidence that the increase in market settings from the last review was required to support generation investment. In fact, we submit the market signal has been (and will be) duplicated by other interventions including the Capacity Investment Scheme (CIS) and South Australia's Firm Energy Reliability Mechanism (FERM).[2] We consider there is a significant risk that South Australian energy consumers are paying too much for reliability, and these costs are disproportionately and inequitably impacting low-income residential consumers in this state.

In our rapidly changing energy system, the current approach to setting reliability standards and settings is no longer fit for purpose. The market settings are no longer the only mechanism for producing reliability outcomes, and the Reliability Panel must consider the impact of South Australia's FERM (and other schemes) as well as an increasingly volatile wholesale market on the standard and settings of the NEM's Reliability Framework. We have attached our submission to the Department for Energy and Mining on the first stage of

[1] Australian Energy Market Commission (AEMC), *Reliability Standard and Setting Review: Issues Paper*, 19 June 2025

[2] See: Consultation on the FERM Regulations, Guidelines. The Regulations underpinning the FERM will be published in August 2025.

consultation on the FERM, for consideration as part of this consultation, which sets out our concerns about the inequitable recovery of reliability costs. [3]

We also consider the illiquid and volatile wholesale market in South Australia (due to our high penetration of CER), must form a relevant consideration in the Panel's Review process. South Australian households are bearing the costs and risks of the changing energy system, as demonstrated by the high wholesale costs impacting households at a retail level. South Australian residential consumers should not be paying multiple times for risks impacting all levels of the price stack, and inequitably recovered through jurisdictional schemes attached to network tariffs. We are calling on the reliability panel to take a holistic view of the impact of multiple costs on households, and to ensure consumers (particularly low-income households unable to access energy from behind the meter) are only paying once for necessary, efficient and reasonable reliability costs.

Summary of submissions

We urge the Reliability Panel to:

- **Return the market settings to levels no higher than those in effect in 2024.**
- **Consider the unnecessary costs to consumers of a wholesale market framework that is no longer fit for purpose in our changing energy system, including the impact of:**
    - **South Australia's Firm Energy Reliability Mechanism (and other schemes)**
    - **an increasingly volatile and illiquid wholesale market in South Australia**
    - **industry participant re-bidding and withholding behaviour.**
- **Have regard to the AER's 'deep dive' into the South Australian wholesale market as part of its *2024 Annual Wholesale Market Performance Report*.** [4]
- **Advise how it reconciles the CECV modelling tool (which identifies reduced wholesale costs for consumers as a result of increased solar PV exports) with the reality facing South Australian customers of increasing wholesale retail costs as a result of volatility due to increasing solar PV generation?**

Energy affordability in South Australia

The energy affordability crisis in South Australia has worsened significantly since the ACCC's 2018 REPI Report, with the ACCC's December 2024 Report showing South Australian households were paying the highest price per unit of electricity in 10 years in 2023/24, with the entire cost stack increasing by 24% on 2022/23 levels (see Figure 1, below).

[3] SACOSS, Submission to the Department for Energy and Mining on the Firm Energy Reliability Mechanism: Consultation Paper, December 2024

[4] AER, 2024 Wholesale Electricity Market performance report, December 2024, pp.115- 161

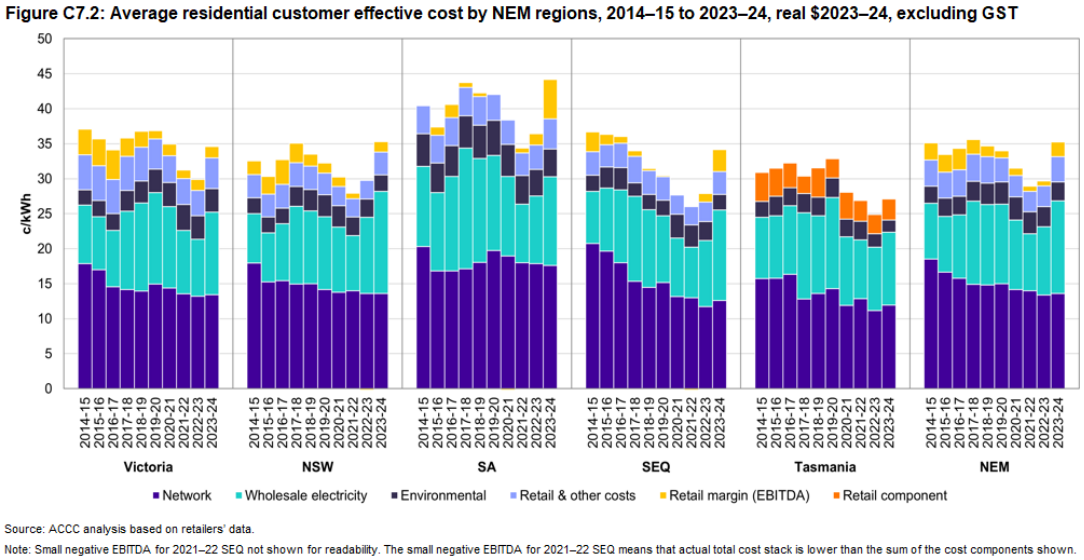

Figure 1: Average residential customer effective cost. Source: ACCC, December 2024[5]

South Australian households also paid the highest retail margin in the Nation in 2023/24, comprising 12% of the cost stack, or $240 per customer - up by 238% on the 2022/23 retail margin of $71 per customer. The ACCC suggests a possible reason for this is that most **retailers increased retail prices to recover high wholesale costs, which could have allowed retailers that avoided high wholesale costs to set consumer prices with high margins**.[6] SACOSS suggests this practice is unreasonable and inefficient, and the Panel should consider the impact of retailers' contracting practices, as well as re-bidding / withholding behaviour on the wholesale costs facing consumers.

South Australian energy customers are experiencing extreme energy cost pressures, and should not be expected to pay for market inefficiencies and multiple reliability interventions. Residential energy debt data provides a key insight into energy affordability, and the growing levels of debt in South Australia point to an energy affordability crisis in this State. The AER's most recent retail performance reporting for Q3 2024/25 (January – March 2025) shows South Australian residential customers are experiencing increasing levels of energy debt, even with the application of Federal Government subsidies. Average debt levels for residential customers not in a hardship program in South Australia have now reached a record high of $1,825 ($410 above the National average), with hardship customer debt now the highest in the Nation increasing from $2,178 last year to $2,428 in Q3 2024/25, (see Figures 2 and 3 below), $444 above the National Average.

[5] ACCC, Appendix C – Supplementary Spreadsheet Inquiry into the National Electricity Market Report, December 2024

[6] ACCC, Inquiry into the National Electricity Market Report, December 2024, p. 7.

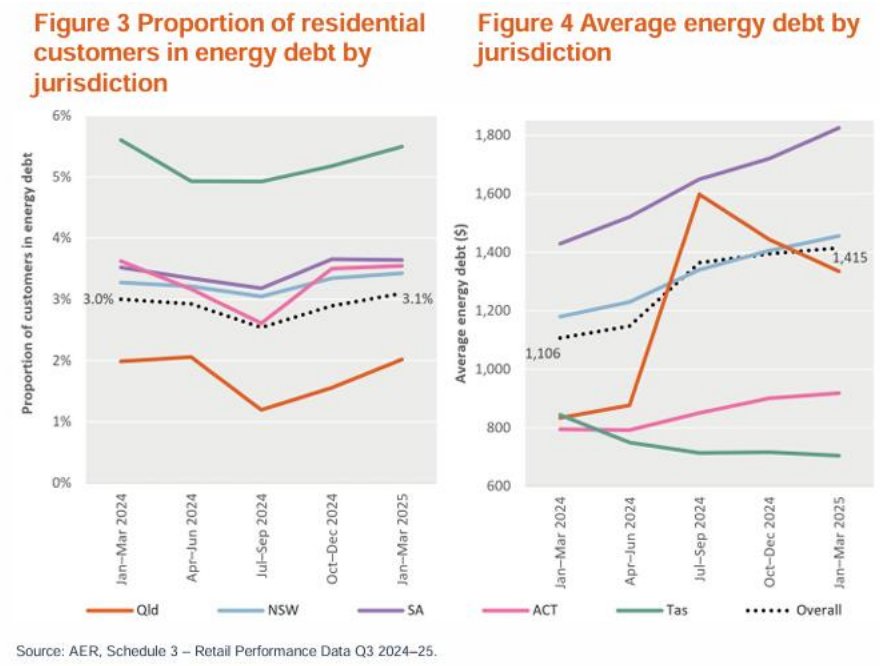

Figure 2: Average Energy Debt by jurisdiction. Source: AER Performance Data, June 2025[7]

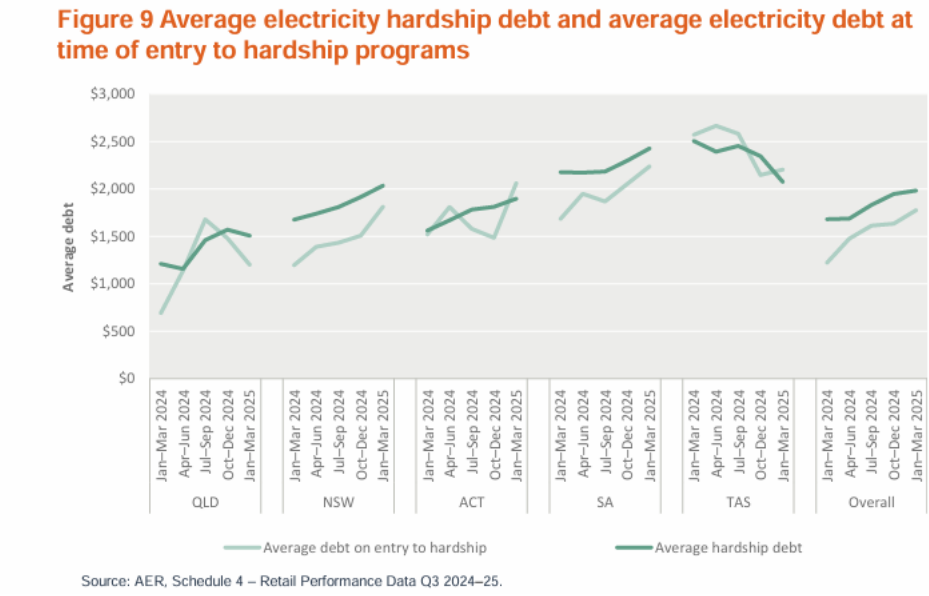

Figure 3: Average hardship customer debt by jurisdiction. Source: AER Performance Data, June 2025[8]

South Australian residential households are struggling to pay for the energy they need to live, and it is vital reliability costs only reflect the efficient and necessary costs required to meet a reasonable reliability standard in the context of a changing and volatile energy system. Consumers should not be expected to (inequitably) pay for reliability levels they do not value.

[7] AER, Quarterly Retail Performance Report: January – March 2025, June 2025, p. 8

[8] AER, Quarterly Retail Performance Report: January – March 2025, June 2025, p. 11

We remain deeply concerned about the increasing inequity in the distribution of electricity costs across all elements of the price stack. Non-transparent retail trading practices and risk management strategies, as well as an increasingly volatile wholesale market and the future costs of the energy transition (including forecast transmission network expenditure, jurisdictional scheme costs and metering costs), all combine to place additional and increasing cost and risk burdens on consumers.

Low-income households, renters and others unable to reduce grid consumption through access to distributed energy resources, disproportionately bear the burden of these costs. We are urging the Panel to consider the multiple reliability cost impacts on consumers when establishing fair and efficient market settings. Consumers are relying on the Panel to consider the costs of market interventions, to exclude the inefficiencies of the current market, and to proactively establish prudent and efficient parameters for industry behaviour and investment, in order to ensure equitable outcomes in a transforming system. Ensuring consumers are protected from paying for market inefficiencies is essential given the current energy climate and future uncertainty.

South Australia's wholesale market

SACOSS has repeatedly raised our concerns around the impact of market volatility (due to solar PV) and low liquidity on wholesale prices faced by consumers in this State.[9] As noted by the AER, 'South *Australia has the highest percentage of installed rooftop solar capacity, 40% of its total installed capacity, and the highest percentage of renewable capacity, 74% of its total installed capacity,'*[10] but households are failing to see any benefits of this renewable energy generation through reductions in wholesale energy costs. Conversely, the spot price volatility due to high solar PV penetration is leading to increased wholesale costs for households in this state, largely due to retailers' hedging practices around the risks of peaky load.

The liquidity of the South Australian market for 'on-demand' electricity has been the subject of a South Australian Productivity Commission Inquiry,[11] and analysis by the University of Wollongong.[12] It is clear the high penetration of rooftop solar and the operation of the wholesale market in South Australia is not benefitting consumers through lower energy bills. Whilst AEMO predicts that greater orchestration of generation over the next 10 years will

[9] See SACOSS' submission to the AER on Default Market Offer determinations, SACOSS, Submission to the AER on the DMO Issues Paper 2023-24, p. 8 and our recent submission to DCCEEW on the Reform of the Default Market Offer, dated 18 July 2025.

[10] AER, State of the Energy Market 2024, p. 33

[11] South Australian Productivity Commission, Inquiry into South Australia's renewable energy competitiveness: Final Report, 10 August 2022 (published 9 November 2022), p. 7

[12] University of Wollongong, Analysis of historical wholesale electricity spot price volatility in South Australia and their projections in 2030 and 2040, April 2022.

lead to reduced wholesale costs for consumers, SACOSS remains deeply concerned about the energy cost impacts on households, both now and into the future.

We are particularly concerned about low-income households, renters and consumers in vulnerable circumstances who face barriers to accessing renewable technology and are shouldering the burden of the costs of the system through higher average grid consumption, without any ability to source energy from behind the meter during the day. SACOSS wants to see governments and market bodies publicly acknowledge the inequitable impacts of a changing system, and to work towards identifying a long-term solution to address the growing energy divide. South Australian consumers are struggling now, and cannot afford to wait 10 years for more affordable energy, especially given future costs associated with the ISP, increasing jurisdictional scheme costs and metering costs.

Notably, the Australian Energy Regulator has acknowledged the 'South Australian market is at the forefront of the energy transition and provides insights for other regions undergoing the same transition'.[13] The AER conducted a 'deep dive' into the South Australian wholesale market as part of its *2024 Annual Wholesale Market Performance Report*.[14] The AER has also found it very challenging to establish a wholesale cost methodology for Default Market Offer determinations in South Australia[15] (DMO 5 saw South Australian households experience a 68% increase in the wholesale cost component of the DMO[16]).

We are calling on the Panel to have regard to the AER's 'Deep Dive', and to consider the impact of:

- an increasingly volatile market on the market settings, where 'a higher proportion of offers in South Australia are at prices below zero or above $5,000 per MWh, with increasingly fewer offers in the middle of the price range',[17]
- market events suggestive of economic withholding, where the AER found the relevant participant 'shifted capacity from low to high prices with the objective of increasing revenue for its portfolio'[18]. Importantly, the market participant made significant returns in the wholesale electricity market at cost to consumers.

SACOSS also notes that in June 2020 the Australian Government introduced further price protections for electricity under Part XICA (which relates to prohibited conduct in the energy market) of the *Competition and Consumer Act 2010*. Part XICA prohibits certain behaviour by market participants in relation to access to electricity hedging contracts and spot market

[13] AER, 2024 Wholesale Electricity Market performance report, December 2024, pp.115

[14] AER, 2024 Wholesale Electricity Market performance report, December 2024, pp.115- 161

[15] AER, *Default Market Offer Prices 2024-25 Issues Paper*, October 2023

[16] AER, Default Market Offer Prices 2023-24 Final Determination, p. 27

[17] AER, 2024 Wholesale Electricity Market performance report, December 2024, pp.115

[18] AER, 2024 Wholesale Electricity Market performance report, December 2024, pp.115

bidding.[19] We support investigations and referrals to the ACCC of market participants engaging in conduct that manipulates the market and increases costs to consumers.

Relevantly, in relation to solar PV exports and the impact on market volatility and wholesale costs faced by consumers, SACOSS understands network businesses and the AER use a modelling tool known as the Customer Export Curtailment Value Methodology (CECV)[20] to assess the potential reductions to wholesale pricing that can be achieved from enabling additional CER exports:[21]

> *'CECVs represent the benefit to all customers from the alleviation of curtailment which allows a greater level of DER exports'*

SA Power Networks has advised SACOSS that 'the CECV provides networks with a time-series indication of how additional solar PV exports impact the costs for generator dispatch and FCAS across the NEM, in 30-minute intervals from 2025 – 2050'. How does the Reliability Panel reconcile the CECV modelling tool (which identifies reduced wholesale costs for consumers as a result of increased solar PV exports) with the reality facing South Australian customers of increasing wholesale costs due to volatility from increasing solar PV generation?

The CECV is driving network investment to enable increased solar PV exports, and yet the wholesale costs actually faced by South Australian consumers are impacted by an increasingly peaky load. The CECV should take into account the impact of solar PV on wholesale contracting practices (and therefore costs to consumers), as both outcomes cannot be true. This highlights the issue with theoretical economic analysis at a systems level failing to align with the actual cost impact on consumers at a household level (as has also been seen in South Australia with the mandatory assignment of all smart meter households to TOU retail tariffs on the basis of 'cost reflectivity').

SACOSS is calling on the Panel to liaise with networks about (theoretical) modelled benefits to consumers through lower wholesale costs due to increased level of DER exports ('wholesale market value streams'). Can wholesale market benefits to consumers truly be established given increasing retail wholesale costs in this State? South Australian energy consumers experiencing extreme energy cost pressures should not be paying for the costs of increased network expenditure, reliability costs and wholesale costs driven by increasing CER penetration and market failures.

We once again urge the Panel to consider the unnecessary costs to consumers of a reliability framework that is no longer fit for purpose in our changing energy system.

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[19] ACCC, Guidelines on Part XICA – Prohibited conduct in the energy market, May 2020

[20] AER, Customer Export Curtailment Value Methodology, June 2022 (CECV)

[21] AER, Customer Export Curtailment Value Methodology, June 2022 (CECV), p.5

Conclusion

Thank you for the opportunity to provide feedback in relation to the RSSR Issues Paper. We would welcome the opportunity to expand on any of our submissions through further engagement, if required. Please do not hesitate to contact Georgina Morris on 8305 4214, or Georgina@sacoss.org.au, if you have any questions in relation to this submission or require any further information or clarification.

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SACOSS' Submission to the Department for Energy and Mining on the Firm Energy Reliability Mechanism: Consultation Paper

December 2024

SACOSS' Submission to the Department for Energy and Mining on the Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper

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SACOSS has a long-standing interest in the delivery of essential services. Our research shows that the cost of basic necessities, like water and electricity, impacts greatly and disproportionately on people experiencing vulnerability and disadvantage.

SACOSS would like to thank the Department for Energy and Mining (DEM) for the opportunity to provide feedback on the *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, (**the Consultation Paper**), dated November 2024.[1] The Consultation Paper represents the first stage of the consultation process on the Firm Energy Reliability Mechanism (FERM), with further detailed design of the Scheme and Regulations to be consulted on in the New Year.

SACOSS is strongly opposed to the proposed cost recovery mechanism under the Scheme, which we submit is highly inequitable and will lead to increased electricity bills for all South Australian energy consumers, disproportionately impacting low income / high usage households already struggling to afford essential electricity services.

SACOSS has significant questions about the drivers of the Firm Energy Target and the FERM, as well as the allocation of the costs and benefits of the Scheme. Given all the costs of the Scheme will be borne by South Australian energy consumers, the reliability targets must be balanced against the costs to consumers of meeting those targets. As there has been very limited consumer engagement on the development of the targets or the Scheme, this submission poses a number of questions to the Government seeking clarification on numerous matters, including the assumptions, drivers and modelling underpinning the FET and the FERM.

[1] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024

SACOSS is also concerned about the Scheme's departure from established national energy frameworks, methodologies and the roles and responsibilities of the National Market Bodies. We believe this departure represents a risk of reduced transparency in decision-making, fewer checks and balances, reduced consumer engagement and input as well as the potential for double dipping - unnecessarily increasing energy costs for South Australian households.

Relevantly, SACOSS has recently made a submission to the Senate Select Committee on Energy Planning and Regulation (**attached**) pointing to the need for two new energy market objectives to better address the needs of energy consumers, the fairness of the market and the energy transition, namely:

- a social equity objective, and
- a consumer harm / risk minimisation objective: '*To avoid exposing consumers to risks they are ill-equipped to understand, manage or price*'.[2]

We are calling on the State Government to consider the attached submission and to include 'social equity' and 'consumer harm / risk minimisation' as overarching objectives to guide and test the impacts of the Electricity Development Plan, Firm Energy Target and the FERM on South Australian households.

Summary of submissions

In summary, SACOSS makes the following submissions in response to this consultation:

- SACOSS is strongly opposed to the costs of the Scheme being inequitably recovered from residential households through electricity bills (via network charges), based on energy consumption from the grid (resulting in cross-subsidies).
- SACOSS strongly supports Energy Consumers Australia's objective of 'No further non-energy services paid via energy bills', and is urging the State Government to reconsider the cost recovery method for this Scheme, especially in the context of the existing SA Government policy priorities South Australian households are already inequitably paying for in their energy bills.
- SACOSS submits the FET and the FERM are not necessary to meet future (*declining*) South Australian *residential* electricity grid demand,[3] and therefore the costs of the Scheme should not be borne by residential consumers.
- In line with the Federal Government's funding of the Capacity Investment Scheme, the South Australian Government should fund the FERM from general revenue, not through unfair cost recovery mechanisms linked to consumer's energy consumption and bills.

[2] Ron Ben-David from the Monash Business School, *What if the Consumer Energy Market Were Based on Reality Rather than Assumptions?*, July 2024

[3] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 140

- Alternatively, the Scheme should be entirely funded by industry as the beneficiaries of the Scheme.
- The energy affordability crisis, increasing energy costs across the price stack, and the disproportionate cost impacts of the proposed Scheme on low-income and high usage households, must be taken into consideration by the Government when balancing the costs and benefits of the proposed Scheme, and determining methods of cost recovery / allocation.
- In light of National Reports on reliability targets, demand forecasts and analysis covering South Australia, SACOSS questions whether the Government has overestimated future reliability risks at great cost to South Australian consumers.
- SACOSS is calling on the State Government to include 'social equity' and 'consumer harm / risk minimisation' as overarching objectives to guide and test the impacts of the Electricity Development Plan, Firm Energy Target and the FERM on South Australian households.
- Given projections and forecasts of demand and reliability change year on year, SACOSS calling on the Government to detail its exit strategy if the FERM is no longer required (noting the provision for 15-year contracts within the FERM).
- The Government needs to account for the impact of National processes on the Firm Energy Target and the FERM over the coming years, to ensure consumers are paying no more than is necessary for energy services.
- The Government must establish a consumer / stakeholder engagement strategy to ensure the interests of consumers, industry, energy market bodies and other stakeholders are represented at all stages of the various processes (including the Electricity Development Plan, Firm Energy Target and the FERM).

SACOSS' Questions for the South Australian Government

Given this Consultation Paper is the first opportunity to provide feedback on the Firm Energy Target and the FERM, SACOSS is keen to better understand the following matters:

- The Federal Government is paying to underwrite renewable generation under the Capacity Investment Scheme (CIS). If additional long duration firm generation capacity is required in South Australia, why isn't the State Government paying to underwrite generation in this State?[4]

[4] Under the Renewable Energy Transformation Agreement (RETA) with the Australian Government, the responsibility lies with the South Australian Government, not SA residential energy consumers: '*South Australia will **establish its own specific grid reliability mechanism and benchmark to be used in place of the national framework**, and to be responsible for identifying and delivering new projects and technologies that will maintain reliability to that standard*.'

- The Consultation Paper points to 'unprecedented electricity demand growth'.[5] Is the FERM necessary to meet future (declining) South Australian residential electricity grid demand?[6]
- Given forecast declining residential 'delivered' electricity in South Australia,[7] can the Government be clear and transparent about the drivers underpinning the Firm Energy Target (anticipated to be in the order of 2000 – 2500MW for five years)[8] and the FERM, and therefore the Scheme's true Objectives?
- If the FERM is being established to provide certainty and benefits for large industrial users / mining and to meet Government policy priorities, should residential energy consumers be required to inequitably pay for the costs of the Scheme? Can the Government clearly answer the question of 'who pays and who benefits' under the FET and the FERM?
- How much will South Australian residential energy consumers pay for the Scheme and the administration costs of the Scheme? How much will large industrial users / mining industry pay for the Scheme? Will the Government pay for any portion of the Scheme or its administration? Can the Government provide a percentage breakdown of cost allocation between Government, industry and residential consumers under the FERM?
- How has the Government balanced affordability and reliability considerations in the development of the Scheme and the Firm Energy Target underpinning the Scheme? Is the Firm Energy Target and the FERM designed to enable a trade-off between reliability and affordability in order to achieve a level of reliability based on consumers' willingness to pay? Will using the FET and the FERM to address a small proportion of very rare unserved energy events result in an excessive cost burden on consumers?
- Can the Government provide estimates of bill impacts based on the median annual grid usage of hardship households in South Australia (7,684 kWh)?[9] Alternatively, can the Government provide a cents per kWh estimate of the increase to energy unit costs, as a result of the Scheme?
- How will the Scheme 'protect' residential energy consumers from 'energy price shocks' and how has this been balanced against the overall annual residential bill increases incurred as a result of the Scheme?

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[5] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 15

[6] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 140

[7] AEMO, South Australian Electricity Report, November 2023, p.

[8] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 30

[9] ACCC, Inquiry into the National Electricity Market Report, June 2024, Appendix E

- Will the FERM provide 'certainty' for residential consumers in the 'resilience and reliability of the power system',[10] or will it provide 'certainty' for large industrial loads / mining / investors? How much are residential consumers willing to pay for this 'certainty'?
- Has the Government considered that residential consumers may be willing to forgo 'certainty' in the reliability and resilience of the energy system if it means lower energy bills?
- Will the FERM provide for increased resilience and reliability for residential consumers, or will residential reliability be maintained at existing levels? Can the Government point to residential customers' willingness to pay for increased reliability for industry in South Australia, beyond the cited 'Value of Customer Reliability'?
- Has South Australia's 'Value of Customer Reliability' been re-weighted with low and high case sensitivities according to the characteristics of future customer outages caused by the projected reliability shortfalls? [11]
- What is the relationship between the methodology underpinning the Firm Energy Target and the AEMC's Reliability Standard.[12]
- Given AEMO provides analysis of the South Australian context, can the Government clearly identify differences in assumptions, inputs and forecasting from AEMO's 2024 Integrated System Plan and 2024 Electricity Statement of Opportunities when developing the Firm Energy Target underpinning the Scheme?
- How can the Scheme be said to 'operate independently from the Government of South Australia' when the Minister for Energy and Mining has the responsibility or endorsing and declaring the Firm Energy Target underpinning the Scheme, and also has the discretion to award contracts under the FERM?[13]
- Can the Government provide evidence of the 'risk of households being exposed to price shocks and periods of unserved energy', having regard to AEMO's 2024 Electricity Statement of Opportunities[14] and the AEMC's Reliability Panel's findings that 'While there is a small risk of large USE events well into the future, these remain

[10] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 23

[11] Reliability Panel AEMC, Final Report: Review of the form of the reliability standard and administered price cap, 27 June 2024, p.65

[12] Reliability Panel AEMC, Final Report: Review of the form of the reliability standard and administered price cap, 27 June 2024

[13] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 29

[14] AEMO, 2024 Electricity Statement of Opportunities, August 2024, pp. 7-8 showing expected unserved energy in SA is low, and the forecast is to provide reliability levels within the relevant reliability standard for SA.

a small part of the overall reliability risk in the NEM (noting that achieving absolute reliability will likely result in an excessive cost burden on consumers)'.[15]

- Are the FET and the FERM intended to be long-term or temporary measures? Given new long duration firm capacity providers are eligible for 15-year contracts, does the Government have an exit strategy or can consumers be expected to pay for / underwrite this additional generation well into the future, even in circumstances where it may not be required?
- Given the ever-increasing energy cost burden on South Australian households already struggling to pay their bills,[16] and the issue of inequitable cross-subsidies in the recovery of fixed network costs, will the Government commit to providing complete transparency of jurisdictional scheme costs recovered from South Australian consumers through energy bills, by separately itemising those costs on individual household bills?
- What level of consumer / stakeholder engagement will be undertaken in the development of the Electricity Development Plan and the Firm Energy Target? Does the Government have a consumer / stakeholder engagement framework or strategy? SACOSS notes the checks and balances on decision-making by the National Energy Market Bodies, provided through consumer input from the AEMC's Reliability Panel, AEMO's ISP Consumer Panel and the AER's Consumer Challenge Panel and Customer Consultative Group, are absent at a state level.

Costs of the proposed FERM

The costs of the proposed Scheme will be recovered from all South Australian energy consumers through their energy bills as a 'jurisdictional scheme cost', via transmission network service provider (TNSP) charges. These costs will then be passed on to residential consumers through distribution network service provider (DNSP) charges linked to grid-consumption.[17]

Currently, South Australian energy consumers pay for the Premium Feed-in-Tariff Schemes and AGL Designated Services costs in a similar way (through distribution network charges). For 2024-25 alone, SA Power Networks will recover $86.2m from South Australian energy consumers through their energy bills (linked to grid consumption) for the cost of these jurisdictional schemes ($5.2m for the AGL Scheme and around $81m for the PFiT Schemes).[18] The Government is also proposing an additional jurisdictional scheme – the

[15] Reliability Panel AEMC, Final Report: Review of the form of the reliability standard and administered price cap, 27 June 2024, p.iii

[16] See AER, Annual Retail Markets Report 2023-2024, November 2024

[17] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 48

[18] AER-Stakeholder Report – SAPN – 2024-25 Annual Pricing Proposal updated, 17 July 2024

Small Claims Compensation Scheme – to be paid for by South Australian electricity consumers via network charges, commencing in 2025.[19]

SACOSS has long argued this method of cost recovery for policy priorities unrelated to the direct provision of energy services is inherently unfair and inequitable. There are two reasons for this:

- energy expenditure is highly regressive; those on the lowest incomes spend proportionately more of their household income on energy than those on higher incomes,[20] and
- households with higher grid-consumption (like hardship or payment plan households) pay disproportionately more for the costs of these Schemes, as compared to those who can access energy from behind the meter and reduce their grid consumption (solar PV / battery households), resulting in inequitable cross-subsidies.

The Consultation Paper is silent about the actual energy bill impacts of the proposed Scheme on South Australian residential energy consumers, and is also silent about the proportion of total cost recovery allocated to large industrial users / mining industry.

Notably, in 2024-25, the total amount to be recovered across 802,000 customers for jurisdictional Schemes for Ausnet in Victoria was $19.29m[21]. This compares to SA Power Networks' **current** jurisdictional Scheme costs of **more than four times** that amount - $86.19m in 2024-25[22], recovered from around 900,000 customers (both homes and businesses). South Australian households are already facing significant additional costs in their energy bills to deliver on Government policies, and SACOSS is strongly opposed to households facing further costs to meet reliability targets that will largely benefit industry and investment confidence to support the Government's 'State Prosperity Project'.

In the event the Government does provide forecasts of the Scheme's cost impacts on residential customers in future consultations, SACOSS cautions against the Government using the 'average residential grid consumption' amount of 4,000 kWh per annum used by the AER in its Default Market Offer (DMO) determinations. As outlined in more detail below, this 'average' amount is well below the grid consumption of households experiencing energy hardship or payment difficulty in South Australia, and therefore the bill impacts for these households will be much greater. We would suggest a 'cents per kWh' energy unit price impact of the Scheme should be calculated, or a cost linked to the varied 'median'

[19] Department for Energy and Mining, *Establishing a small claims compensation scheme for small electricity customers in South Australia: Consultation Paper*, September 2024, p. 5

[20] SACOSS, Working to make ends meet: Low income workers and energy bills stress, November 2020, p.42

[21] Ausnet services Annual Pricing Proposal 2024-25, 28 March 2024, section 1.2

[22] SA Power Networks Annual Pricing Proposal 2024-25, p. 56.

usage amounts for different household cohorts (hardship, payment plan, solar, non-solar), in order to determine whether costs are 'evenly shared across all energy users in South Australia'.[23]

This submission briefly expands on the regressive nature of energy costs, and the inequitable recovery of costs linked to network charges, below.

Energy costs are regressive

The proposed cost recovery mechanism for the Scheme will not ensure Scheme costs are 'evenly shared across all users in South Australia' because energy costs are regressive. The second target in Energy Consumers Australia's recently released 'Three Year Plan',[24] is *Value*: *I pay a fair share for the energy I use,* and includes the objective of '**No further non-energy services paid via energy bills'**:

> *'Unlike taxes, which are progressive (i.e. the more you earn, the higher the rate of tax you pay), energy bills don't take into account your income or personal circumstances, which is why it's so hard for low-income families, and small businesses that need to use more energy, to afford them. In the middle of a cost-of-living crisis, we need to make sure that **only energy costs are added to our energy bills** – not costs for other policy priorities.'*

SACOSS strongly agrees with this objective, and is urging the State Government to reconsider the cost recovery method for this Scheme, especially in the context of the existing 'non-energy services' South Australian households are already inequitably paying for in their energy bills,[25] and the current energy affordability crisis in this State. This Scheme is being implemented to meet the policy priorities of the South Australian Government to support industry and investor confidence in this State. In circumstances where residential grid consumption is declining and alternative firming capacity would arguably be adequate to meet household needs for reliability and resilience,[26] SACOSS submits the Firm Energy Target and the FERM are not designed to deliver energy services for residential households, and therefore residential consumers should not be paying for the costs of the Scheme.

ECA's and the CSIRO's Stepping up Report[27] clearly highlights the regressive nature of energy bills and the increasing divide between those who can afford energy costs, and those who cannot. The ECA found that 'for those who earn less than $40,000 per annum, energy

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[23] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 48

[24] Energy Consumers Australia – Three Year Plan, October 2024

[25] Including the PV FiT Schemes, the AGL Designated Services costs, the Retail Energy Productivity Scheme, and both federal and state renewable energy target schemes.

[26] Noting the Commonwealth's Review of the effectiveness of the Prohibiting Energy Market Misconduct (PEMM) Act 2019 (Cth): Consultation Paper, November 2024 will examine this issue.

[27] ECA, and CSIRO, Stepping Up Report, August 2023, p. 9

bills (electricity and gas) are between 5.7% and 12.7% of their income. In contrast, for those that earn over $150,000 pa, energy bills make up just 1.5%' (see Figure 1, below).

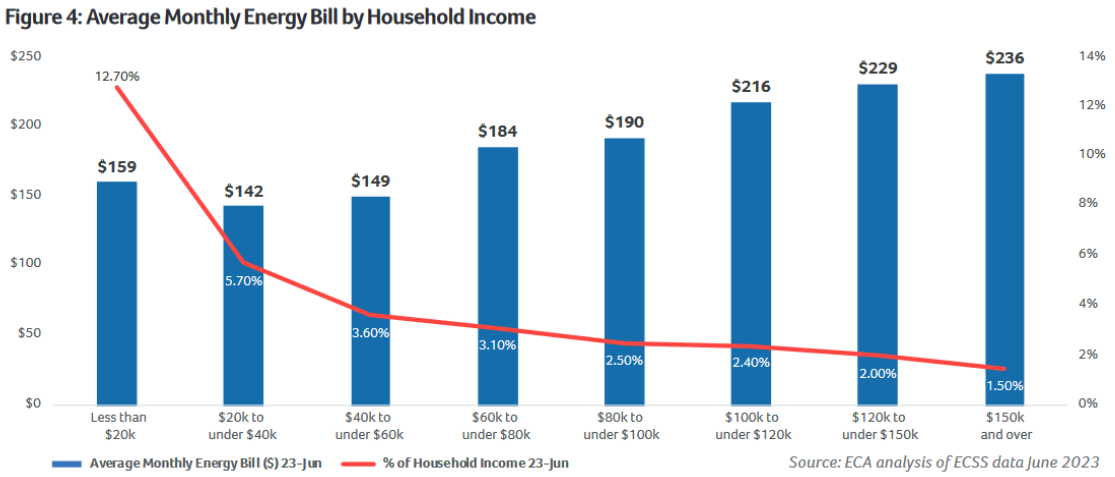


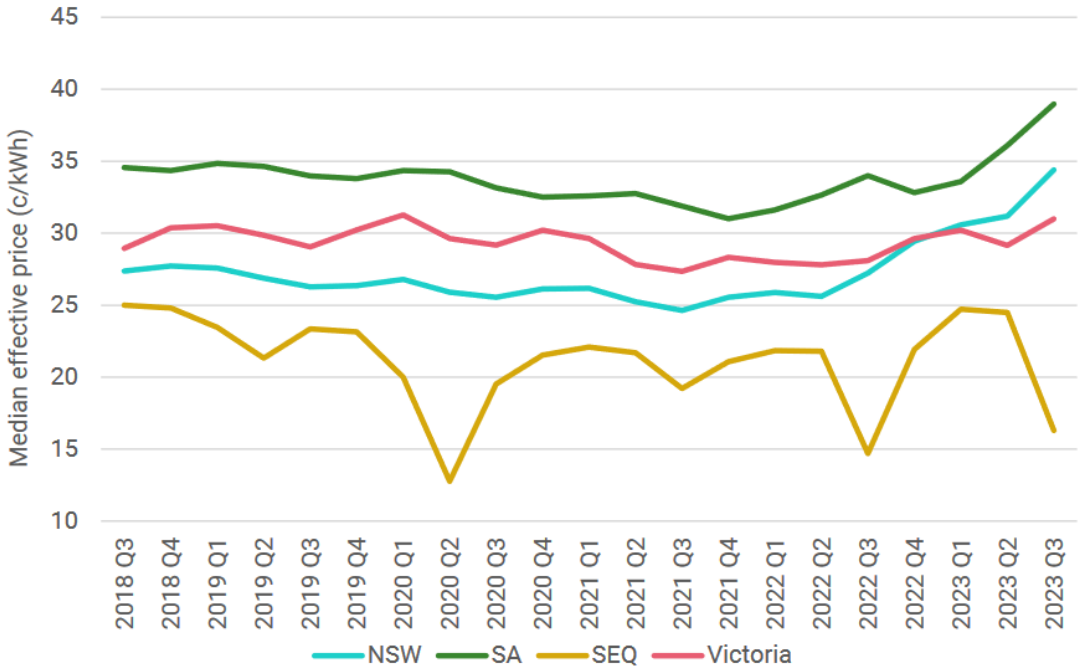
Figure 1: Average monthly energy bill by household income. Source: ECA, CSIRO, August 2023[28]

This growing energy divide is particularly stark in South Australia where we continue to have the highest effective price for electricity in the Nation (see Figure 2, below) coupled with the highest penetration of roof top solar, which means that fewer households are solely reliant on grid-consumption (renters, people on low-incomes), and those households are paying disproportionately more for fixed network costs (including jurisdictional scheme costs), resulting in inequitable cross-subsidies.

[28] ECA, and CSIRO, Stepping Up Report, August 2023, p. 9

Figure 3.1: Residential customers paid higher effective prices in all regions except South East Queensland

Median effective prices paid by residential customers by region, all quarters, from quarter 3 of 2018 to quarter 3 of 2023



Source: ACCC analysis of retailer billing data. Nominal dollars, excluding GST.

Figure 2: Median effective residential price for electricity. Source: ACCC, June 2024

Central to a consideration of the introduction of any energy policy or Scheme is the question of who pays and who benefits. SACOSS submits low-income households in South Australia will pay disproportionately more for the costs of the proposed Scheme, and are unlikely to receive commensurate benefits. Arguably, large industry / mining and Government will be the primary beneficiaries of the Scheme.

If the Government considers this proposed Scheme is a policy priority to provide certainty for industry and investment, then SACOSS suggests the Scheme should more fairly be funded through progressive general revenue, not regressive energy bills.

Higher grid consumption means bigger bill impacts

Further compounding the growing energy divide in South Australia is the higher grid consumption of households experiencing energy hardship and payment difficulty.

The AER's *Annual Retail Market Report* for 2023/24[29] found that South Australia had the lowest average annual household electricity usage in the nation due to high rooftop solar penetration (SA is 4,237kWh, and Tasmania is 7,855 kWh – **85% higher than SA**). The AER

[29] AER, Annual Retail Markets Performance Report 2023/24, 30 November 2024

used a model annual usage of 4,000 kWh (or around 1,000kWh a quarter) to determine Default Market Offer (DMO) 6 for South Australia.

SACOSS submits that 'average annual usage' calculations used by the AER to measure energy affordability, and by SA Power Networks to measure 'average bill impacts', do not adequately consider the impact of lower grid consumption due to roof-top solar penetration, or the higher energy consumption patterns of households experiencing energy hardship or payment difficulty.

The ACCC's recent Inquiry into the National Electricity Market Report[30] shows the annual grid usage by different residential customer groups in South Australia (Figure 3, below):

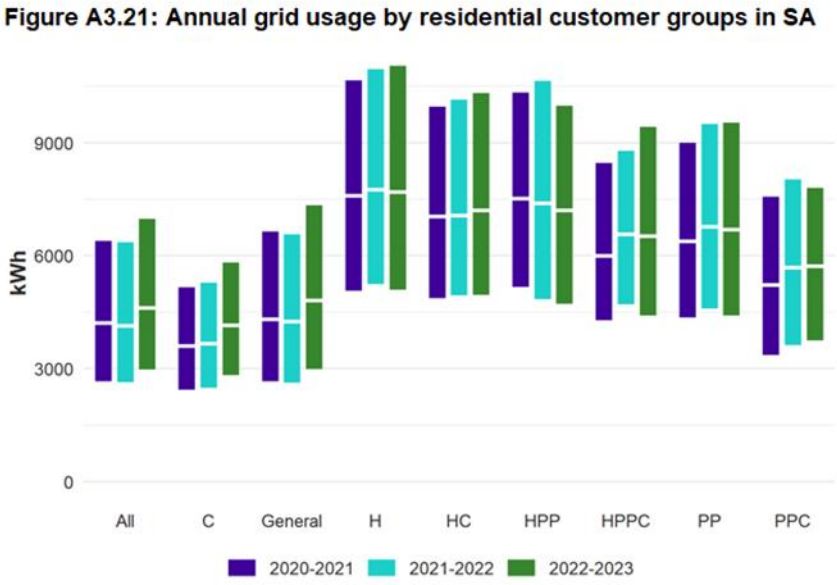


Figure 3: Annual grid usage by customer group. Source: ACCC, June 2024[31]

The ACCC's data (from billing information) shows the median grid usage for hardship customers (not on a concession) for 2022-23 was 7,684 kWh, with hardship customers on the 75th percentile using 11,035 kWh in that year. The median usage of a hardship customer was **66% higher** than the median usage of a South Australian residential customer in 2022-23, leading to much higher bills. For customers on a payment plan (not receiving a concession) median usage was 6,686 kWh for 2022-23 and up to 9,535 kWh for the 75th percentile.

Looking at usage on a quarterly basis, for quarter 3 in South Australia across 2020 – 2023, the median grid consumption for *all* South Australian residential customers in Q3 2023 was 1047 kWh, for customers *not in the other identified groups* (not hardship customers,

[30] ACCC, Inquiry into the National Electricity Market Report, June 2024, Appendix E

[31] ACCC, Inquiry into the National Electricity Market Report, June 2024, Appendix E

concession customers or payment plan customers etc.), median usage was 1061kWh (about the same as the AER's average annual usage). For customers on a hardship plan in South Australia, the median usage for Q3 2023 was 1,960 kWh, or **84% higher than customers not in the other identified groups**.[32]

The ACCC noted that usage tends to be highest in quarter 3 each year, but hardship and payment-plan customer groups have median usage significantly above 1,000 kWh per quarter **at all times of year** (see Figure 3, above). The ACCC stated that:

> '*Higher usage among some customer groups could be driven by these groups having more people per household.* ***Another factor could be that these households are less able to afford (or are otherwise restricted from accessing) more energy-efficient housing, appliances, and rooftop solar****. This is particularly relevant for customers who rent their homes, as they typically don't have control over most of these factors.*[33]

Increased usage means increased bill impacts. In terms of the recovery of fixed network costs and jurisdictional scheme amounts linked to network charges, this means higher grid consumption households are cross-subsidising households that can avoid grid consumption by accessing energy from behind the meter. Adding additional costs (not directly related to the provision of energy) onto household bills via grid-consumption charges is an unfair and inequitable way to pay for policy priorities. The disproportionate cost recovery and cross-subsidies from low-income and high usage households need to be properly understood and considered when examining the costs and benefits to consumers of various schemes paid for through energy bills, including the FERM.

The costs of meeting the Firm Energy Target and the proposed Scheme must be viewed in the current energy affordability context

It is vitally important the South Australian Government properly consider the Scheme's disproportionate cost impacts on low-income and higher consumption households in this State. Under the proposed cost recovery mechanism, the costs of the Scheme will NOT be 'evenly shared'. SACOSS is also concerned about the long-term (15 year) contracts being proposed under the Scheme, and the potential for the FERM's costs to increase without an end-date.

SACOSS is calling on the Government to acknowledge the growing issue of inequitable network (and jurisdictional scheme) cost recovery, existing cross-subsidies and the current energy affordability crisis in South Australia. It is clear, South Australian households are

[32] ACCC, Inquiry into the National Electricity Market Report, June 2024, Appendix E

[33] ACCC, Inquiry into the National Electricity Market Report, June 2024, p.46

currently struggling to pay for energy to meet their basic needs, as evidence by the AER's recent Annual Retail Markets Report for 2023-24:[34]

- South Australia has the highest average residential energy debt in NEM jurisdictions. South Australia has had the highest levels of average residential energy debt for the past 3 financial years.[35]
- The average energy debt of (non-hardship) residential customers in SA is $1,522 (up from $1,256 in 2022-23), $374 above the National average of $1,148. Average energy debt of (non-hardship) residential customers in SA has increased by 21% or $266 in 12 months.[36]
- Even with government energy bill relief, the number of customers repaying energy debt has increased over the past two years from 23,182 in 2021/22, to 27,380 in 2023/24 (up by 18%).[37]
- Average debt of hardship customers in SA has decreased in the last 12 months – from $2,402 in 2022/23, to $2,174 in 2023/24, but is still $487 above the National average of $1,687 (and is up $311 from pre-pandemic levels of $1,863 in 2018-19).[38]

Also relevant to the South Australian experience are increasing network costs, wholesale costs[39] and environmental scheme costs. The AER's *2024-25 Annual Pricing Proposal*[40] published in May 2024 saw an increase of $71.45 for network services in 2024-25 (based on *average* annual usage). In addition to increasing network costs, DMO 6 also saw an increase in environmental and retail cost components from DMO 5. The **environmental cost** component for South Australia increased by 14.3% from DMO 5 levels, **the largest increase across all jurisdictions**, and the AER noted a **43% increase** in the costs recovered from South Australian households to support the South Australian Retailer Energy Productivity Scheme (REPS).[41] Retail costs also increased by 25% from DMO 5 due to increases in operating costs, bad and doubtful debt costs and smart meter costs.[42]

[34] AER, Annual Retail Markets Performance Report 2023/24, 30 November 2024

[35] AER, Annual Retail Markets Performance Report 2023/24, 30 November 2024

[36] AER, Q4 2023/24 Retail Markets Data, 30 November 2024

[37] AER, Q4 2023/24 Retail Markets Data, 30 November 2024

[38] AER, Q4 2023/24 Retail Markets Data, 30 November 2024

[39] he AER's recent wholesale markets Report for Q3 2024 shows that average volume weighted prices in SA increased by 35% in the last quarter and were up 76% on Q3 2023.

[40] AER, Statement of Reasons, SA Power Networks 2024-25 Annual Pricing Proposal, May 2024

[41] AER, Default Market Offer 2024-25 Final Determination, 3 June 2024, p. 109

[42] AER, Default Market Offer 2024-25 Final Determination, 3 June 2024, p. 109

Rising energy costs, cross-subsidies, and the regressive impacts on low-income households, must be taken into consideration by the Government when determining the fairest cost recovery mechanism under the proposed Scheme. SACOSS once again strongly submits that the costs to meet the FET through underwriting generation should be paid for by the South Australian Government. This is a more progressive form of cost recovery, aligns with the Commonwealth's funding of the CIS and better reflects the actual beneficiaries of the Scheme.

Forecast declining Residential Grid consumption in South Australia

The Consultation Paper points to 'unprecedented electricity demand growth', underpinning the need for the FET and the FERM.[43]

AEMO's 2024 Electricity Statement of Opportunities provides consumption forecasts for delivered consumption, as well as underlying consumption / demand, stating:[44]

> '*This ESOO reports consumption forecasts for each sector (residential and business) as* ***delivered consumption, meaning the electricity delivered from the transmission system to household and business consumers****. Delivered consumption also includes electricity required to charge electric vehicles. Annual operational consumption forecasts include this forecast delivered consumption for all consumer sectors, plus electricity expected to be lost in transmission and distribution*.'

AEMO's consumption forecasts residential 'delivered' (through the transmission grid) electricity is predicted to **decline** in South Australia from now through to 2052-53, with the majority supplied by rooftop solar (see: Figure 4, below), stating:[45]

> *'Growth in residential PV generation is expected to exceed the growth in other residential consumption drivers and* ***reduce the overall operational consumption*** *of that sector.*'

[43] Department for Energy and Mining, *Firm Energy Reliability Mechanism: Proposed Scheme Design Consultation Paper*, dated November 2024, p. 15

[44] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 20

[45] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 140

Figure 66 Components of South Australia residential electricity consumption forecast, ESOO Central scenario, 2024-25 to 2053-54 (TWh)

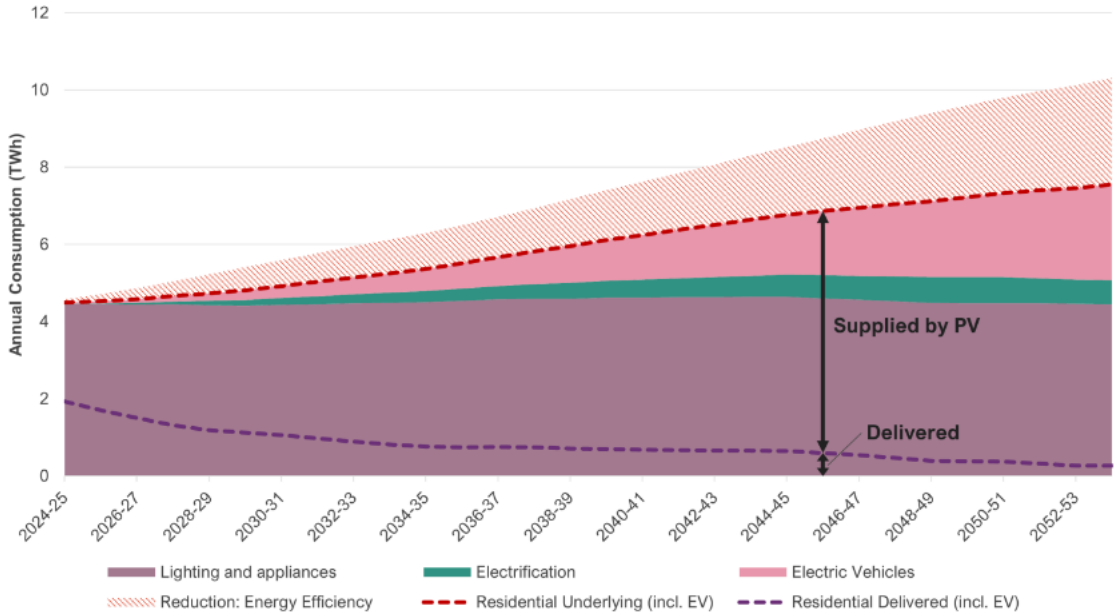


Figure 4: Residential Electricity Consumption Forecast. Source: AEMO, 2024[46]

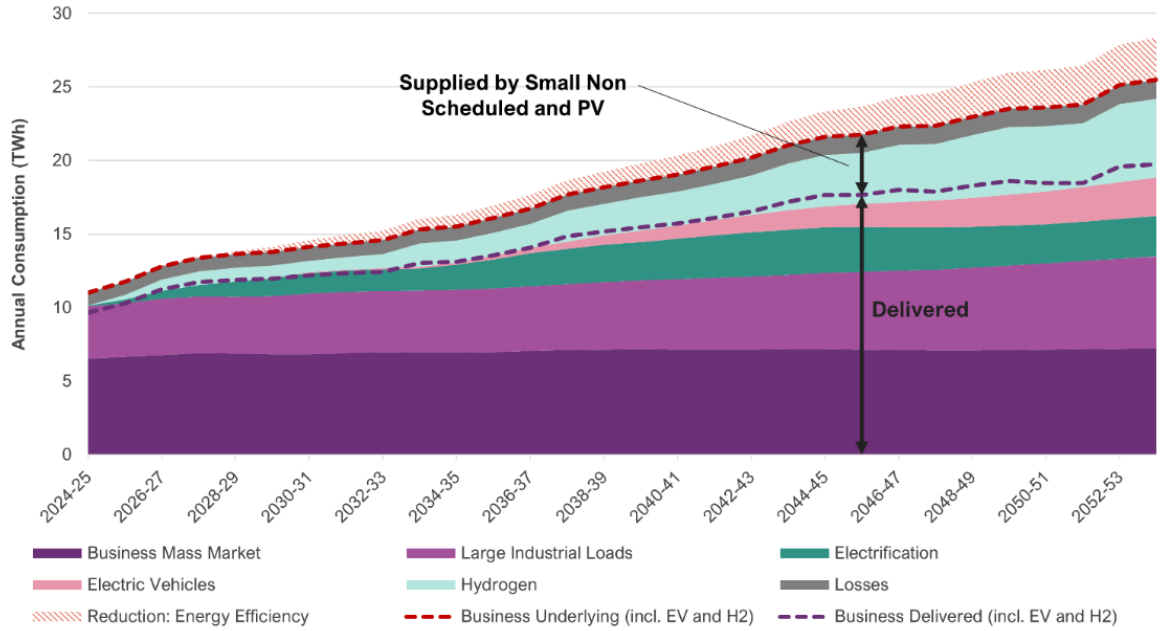
SACOSS strongly questions the Government's narrative of 'unprecedented demand growth' underpinning the FET and the FERM, in so far as that statement refers to residential requirements for generation connected to the transmission grid. SACOSS submits the FET and the FERM are not necessary to meet future (*declining*) South Australian *residential* electricity grid demand,[47] and therefore the costs of the Scheme should not be borne by residential consumers.

AEMO's forecasts show an increase in 'delivered' electricity for business and industry in South Australia (see Figure 5, below):

[46] AEMO, 2024 ESOO, August 2024, p. 140

[47] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 140

Figure 67 Components of South Australia business electricity consumption forecast, ESOO Central scenario, 2024-25 to 2053-54 (TWh)



Note: Small non-scheduled combines PVNSG and ONSG.

Figure 5: Business consumption forecasts SA. Source: AEMO, 2024[48]

If the FET and the FERM are required to meet business / industry needs, then business and industry (or government) should pay for the entirety of the Scheme.

Reliability forecasts

AEMO's 2024 ESOO does not forecast any reliability shortfalls for South Australia, if all committed and anticipated national and state projects are delivered in-full and on-time (see Figure 6, below):

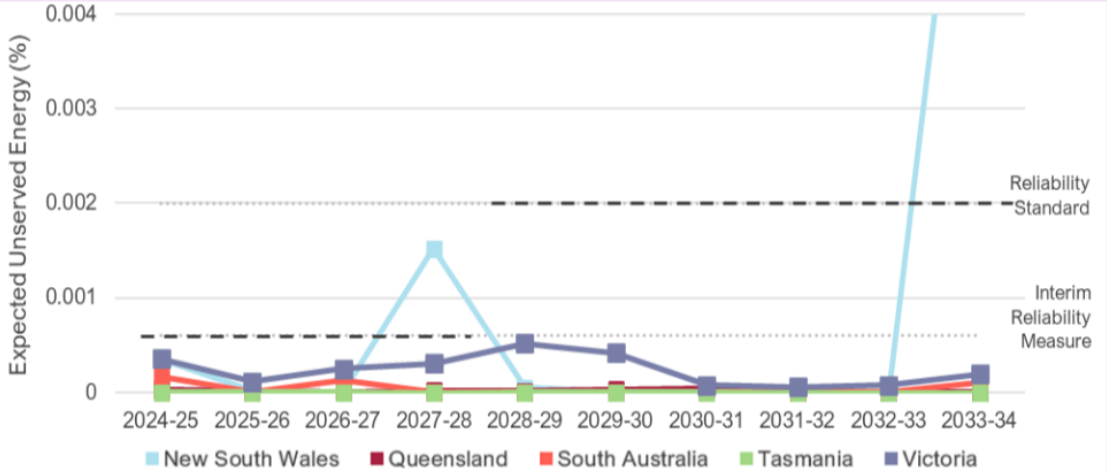
[48] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 141

The *Federal and State Schemes* sensitivity in this ESOO includes existing, committed and anticipated developments to meet the ESOO Central demand forecast, delivered to the schedules advised by developers, as well as:

- Actionable transmission investments and forecast growth in coordinated CER and flexible demand resources.
- Firming and some renewable energy developments that have specific funding, development or contracting arrangements under federal, state and territory government schemes and programs.

This sensitivity does not include all policies under active development by jurisdictions, or announced targets within existing policies, and reliability outcomes will improve further if all jurisdictional schemes and programs deliver to their objectives.

Figure 1 Expected USE, additional actionable and anticipated developments, 2024-25 to 2033-34 (%)



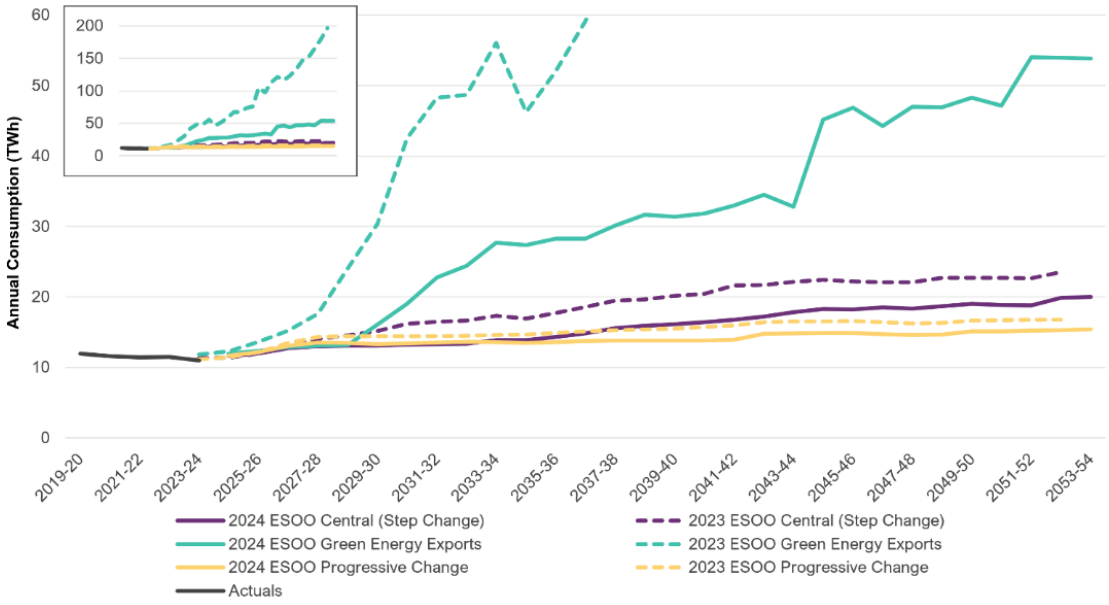
This sensitivity includes only those announced and identifiable components of announced federal and state schemes, including various tender stages that have been concluded. Delivering planned subsequent tender stages will support further improvements to this reliability assessment.

Figure 6: Expected unserved energy 2024-25 to 2033-34. Source: AEMO, 2024[49]

The Government need to be clear about the different inputs and assumptions driving the establishment of the FET and the FERM, locking in long-term (15 year) contracts with generators to be underwritten by South Australian energy consumers at great cost now and into the future. What sensitivities has the Government used, and can South Australian consumers trust the Government's long-term modelling? As evidenced by the differences in AEMO's 2023 ESOO and 2024 ESOO (see Figure 7, below) forecasts and projections for South Australia change year on year. Can the Government assure the South Australian public that they will not be unnecessarily paying for generation capacity that is not required in 15 years' time? Does the Government have an exit strategy if its own forecasts prove to be wrong and the 'potential' industrial load growth does not occur?

[49] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 7

Figure 68 Actual and forecast South Australia operational consumption, all scenarios, 2019-20 to 2053-54 (TWh)



Note: *2023 Green Energy Exports* continue beyond the chart to reach approximately 196 TWh in 2052-53.
Numerous industrial loads, particularly in northern South Australia, have been identified as potential load developments, but do not meet AEMO's commitment criteria for inclusion in the ESOO. Short and medium term growth could therefore increase above that which is forecast in the Central scenario, if these potential developments commit; AEMO's methodologies preclude these uncertain developments from being considered in the ESOO.

Figure 7: Operational consumption forecasts 2023 and 2024 comparison. Source: AEMO, 2024[50]

Relevantly, the AEMC's Reliability Panel recently looked at the changing reliability risk in a high VRE system, stating:[51]

> *'There was a concern prior to this Review that the changing reliability risk in a high-variable renewable energy (VRE) system may lead to very extreme reliability shortfalls and the current form of the standard may not adequately address such risk. This has been a critical focus for the Panel in its modelling work.'*

The Reliability Panel found:[52]

> *'However, our latest modelling results do not suggest there is any significant risk of such extreme events.* ***While there is a small risk of large USE events well into the future, these remain a small part of the overall reliability risk in the NEM (noting that achieving absolute reliability will likely result in an excessive cost burden on consumers).*** *Based on this, there is no clear need to change the form of the standard.'*

[50] AEMO, 2024 Electricity Statement of Opportunities, August 2024, p. 141

[51] AEMC, Final Report: Review of the form of the reliability standard and APC, 27 June 2024 p. ii

[52] AEMC, Final Report: Review of the form of the reliability standard and APC, 27 June 2024 p. ii

> *The **Panel considers that the risk of such large, low-probability USE events cannot be adequately addressed by any form of the reliability standard**, and would need to be addressed in other ways.*
>
> *This is because the reliability standard, as a tool, is not intended to achieve absolute reliability. Instead, it **is designed to enable a trade-off between reliability and affordability** such that it achieves a level of reliability based on consumers' willingness to pay. **Using the reliability standard to address a small proportion of very rare USE events will likely result in an excessive cost burden on consumers, regardless of which form it takes**.*

SACOSS is yet to see the Electricity Development Pan or the FET. Can the Government assure South Australian energy consumers that the establishment of the FET and the FERM is the appropriate way to address rare USE events? Does the FET enable a trade-off between reliability / resilience and affordability? Is the Government's different assessment of risk for South Australia (as compared to AEMO's analysis) resulting in an excessive cost burden on South Australian consumers? How does the Government's assessment of risk differ from the Reliability Panel's modelling?

Further, the Consultation paper points to the Value of Customer Reliability (VCR) in support of South Australian household's willingness to pay for 'certainty'. Has the Government appropriately applied the VCR, and should the Government consider alternative ways to apply or re-weight the VCR when looking at rare USE events? The AEMC's 2024 Reliability Panel Report identified an opportunity to improve the way in which it applies the VCR in the Reliability Standard and Settings Review process:[53]

> *'The 2022 RSSR used the AER's load-weighted jurisdictional VCR values as the base case, with re-weighted high and low case sensitivities. Consistent with feedback from stakeholders, the insights gained from this Review create opportunities for alternative ways to apply or re-weight the VCR results for the RSSR. The weightings used to derive the AER's main state-based VCR values are based on historical customer outages from all causes. **The Panel proposes that the VCR values used for the RSSR should be weighted according to the characteristics of future customer outages caused by reliability shortfalls, where feasible**.'*

Overall, SACOSS is deeply concerned about South Australian households inequitably shouldering an excessive cost burden to meet a Firm Energy Target that is based on opaque modelling and 'potential' industrial load growth. Given the current energy affordability crisis in this State, it is vital that Government do all that it can to avoid unnecessary and additional cost burdens on consumers, particularly low-income households.

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FERM Objectives and Principles

As outlined earlier in this submission, residential electricity demand for 'delivered' electricity is forecast to decline. It is questionable whether the FET and the FERM are required to 'provide certainty' to residential energy users in 'the resilience and reliability of the power system', as stated in the objectives.

If the FET and the FERM are required to provide certainty for industrial users and investors, then this should be clearly acknowledged in the Objectives and residential consumers should not be required to pay for the Scheme.

SACOSS questions whether the appropriate trade-offs between reliability and affordability have been made in the design of the Scheme. Has the Government considered that residential consumers may accept less 'certainty' for lower energy prices?

SACOSS also questions the objective to 'protect (energy users) from energy price shocks'. What is the cost of these projected 'price shocks' to consumers? Has this been balanced against the ongoing cost of underwriting generation?

The impacts on consumers of spikes in wholesale prices differ from fixed network (and jurisdictional scheme) cost recovery. As outlined earlier in this submission, fixed network cost recovery is inequitable and results in higher grid-usage households (more likely to be those without solar / renters / hardship households) cross subsidising the network and Scheme costs of lower grid-usage households (solar, solar with battery). Linking the cost recovery of the Scheme to network charges will result in inequitable cost recovery, placing un unfair cost burden on those who can least afford it. It may be fairer for households to experience wholesale 'price shocks' where the risk is managed by retailers (who are best placed to manage those risks), rather than placing the cost burden of avoiding those 'risks' directly onto households.

Further, the Commonwealth Government has initiated a Review into the wholesale market design of the National Electricity Market to promote investment in firmed, renewable generation and storage after 2027. This may result in avoiding or reducing the energy 'price shocks' referred to in the FERM's objectives. Has this been taken into account in the long-term design of this Scheme?

It is clear, the energy market is not operating in the long-term interests of consumers. South Australian households are continuing to face increasing energy costs across the price stack. This consultation represents an additional cost burden for South Australian households that will have significant inequitable impacts.

Once again, we are calling on Governments to adopt overarching social equity and consumer harm / risk minimisation energy objectives to guide all decision-making through the energy transition, specifically:

> ***To avoid exposing consumers to risks they are ill-equipped to understand, manage or price.***

We consider the proposed cost recovery mechanism for the Scheme is inequitable and **will** expose South Australian residential consumers (and disproportionately low-income households), to 'risks they are ill-equipped to understand, manage or price'. On this basis, we question the Scheme's stated objectives and strongly oppose residential consumers paying for the costs of the Scheme through fixed network cost recovery.

Conclusion

Thank you for the opportunity to provide feedback in relation to the proposed Firm Energy Reliability Mechanism. We would welcome the opportunity to expand on any of our submissions through further engagement, if required. Please do not hesitate to contact Georgina Morris on 8305 4214, or Georgina@sacoss.org.au, if you have any questions in relation to this submission or require any further information or clarification.

SACOSS
South Australian Council of Social Service

Marjorie Black House
47 King William Road
Unley SA 5061

P. 08 8305 4222
E. sacoss@sacoss.org.au
www.sacoss.org.au

ABN 93 197 662 296

Senate Select Committee on Energy Planning and Regulation in Australia
PO Box 6100
Parliament House
Canberra ACT 2600

Lodged online via portal

Re: Submission to the Energy Planning and Regulation Inquiry – the National Energy Objectives

SACOSS is the peak body for the non-government health and community service sector in South Australia and has a mission to advocate for the interests of vulnerable and disadvantaged people across the state, including in relation to energy affordability and consumer rights, where we have a long history of funded advocacy. We thank the Select Committee for the opportunity to make a submission to the inquiry on Energy Planning and Regulation in Australia.

While the Committee's Terms of Reference are very broad, our submission focuses on just one high-level area, namely the National Energy Objectives. This relates directly to Terms of Reference (a) the National Energy Law, and (g) the statutory framework which supports consideration of stakeholder views and the public interest. However, the NEO (and any changes to the NEO) is also relevant to all the other entities and operations referred to in the Committee's Terms of Reference.

The National Energy Objectives

Decisions in the National Energy Market are made according to a set of legislated objectives known as the National Energy Objectives, incorporating:

- The National Electricity Objective (NEO) in the National Electricity Law;
- The National Energy Retail Objective (NERO) in the National Energy Retail Law; and
- The National Gas Objective (NGO) in the National Gas Law.

The objectives in each of these laws are similar in form and content, are largely supply-side focused, and define the long-term interests of consumers as an energy system that promotes system security, reliability and economic efficiency.

While in recent years the Objectives have been expanded to include the achievement of emissions reductions targets, they remain very narrow and are inappropriate or inadequate to deal with the social and economic challenges of the energy system as it exists now, let alone the transition to a future energy system. We believe that additional objectives are

needed to better address the needs of energy consumers, and the fairness of the market and the energy transition. We propose two such new objectives:

- A social equity objective; and
- A consumer harm/risk minimisation objective.

A Social Equity Objective

While the ABS has left a significant data hole by not updating its flagship *Household Expenditure Survey*, the last iteration – and all other analysis of spending patterns – shows that expenditure on energy is highly regressive when measured by both income and wealth. That is, poorer households spend a greater proportion of their income on energy costs than average and better-off households.

This means that any energy policy changes or outcomes will inevitably have social equity implications, for better or worse. Recent changes to energy market design, rules and regulations; changes in technologies, services and market conditions; and the unequal distribution of energy market costs, have already created wide-ranging and negative social equity impacts. Unfortunately, there is potential for this to get worse.

Apart from just struggling with the size and regressive impact of energy bills, people experiencing financial disadvantage struggle to afford and access energy technologies such as efficient appliances, insulation or solar power that can help them reduce their energy bills. This is particularly so for those don't own their own home, and as energy prices increase the incentive for higher income households to invest in energy-saving technology increases, as does the gap to lower-income households without those options.

As more and more costs of the energy transition are being loaded on energy bills people experiencing financial disadvantage are paying disproportionately more of the costs of the transition. For example, research shows that subsidy schemes for small-scale solar panels and solar feed-in tariffs recovered through electricity bills are inequitable and regressive.

Network costs make up two-fifths of the electricity bill (more in some network areas) and at present are recovered via consumption tariffs through a combination of fixed and usage charges. Households able to substantially reduce their grid consumption pay less for the cost of the network, which leads to other households paying a greater share of all network costs (under regulated network revenue caps).

Further, a shift to "time-of-use" cost-reflective tariffs will leave some consumers worse off if they don't have the "life flexibility" or resources to afford technology to enable them to change energy usage patterns. Again, research suggests that that vulnerable and low-income households are likely to end up paying higher prices for their electricity under time-of-use tariffs.

Finally, SACOSS has identified that the cost of removing gas from residential homes is an equity issue because the expenditure required (for exit fees and new appliances) is less affordable for low-income households, leaving them potentially paying higher energy costs in dual fuel households. As Energy Consumers Australia has shown, this is likely to have a

further impact as wealthier households go all electric, because with fewer customers to share network costs, the energy bills will rise even further.

Many of these issues are not being appropriately addressed because equity is not an objective in the NEO. A joint statement in February 2023 signed by 37 community, business, environment and research organisations, including SACOSS, argued that clear equity and demand-side objectives could change market design, rules and regulations to create greater social equity by:

- Distributing costs, benefits and risks transparently and fairly to allow for equitable outcomes regardless of people's ability to engage with the energy system;
- Incentivising energy market participants to innovate in ways that bring benefits to all consumers; and
- Providing appropriate protections to support people to access affordable, efficiently priced basic energy supply regardless of how much or little they interact with energy services.

We have attached that joint statement to this submission, and ***ask that the Committee recommend a change to the national energy objectives to incorporate a social equity objective***.

A Consumer Harm/Risk Minimisation Objective

We would like to draw the Committee's attention to a recent paper by Ron Ben-David from the Monash Business School, *What if the Consumer Energy Market Were Based on Reality Rather than Assumptions?*. In that paper, Ben-David outlines the assumptions about consumers and consumer behaviour which have been embedded in energy market and regulatory design. Consumers were initially seen as active and discerning shoppers of electricity, and more recently as market participants who are interested, willing and capable of trading and shaping their energy consumption in response to price signals. With these constructions the role of the regulator is simply to support consumer sovereignty through transparent flows of information and removing barriers to consumers shopping as they please. In economic theory, this would ensure the best outcomes for consumers.

While SACOSS recognises these assumptions as being those of the perfect market in neoclassical economics, we agree with Ben-David that those assumptions do not fit the habits, abilities or realities of energy consumers in the real world – and that the mischaracterisation of the relationship of consumers to the energy "market" has come at great cost to consumers.

Ben-David outlines eleven key ways in which real behaviour and position of consumers differs from this conceptual framework and posits a series of "truth statements" as a better starting point for energy regulation. He proposes an exploration of five market and regulatory design changes, any of which the Committee might like to consider. However, in this submission we wish to focus only on the top-level recommendation for a new and additional regulatory objective.

Given consumers don't have the skills and attributes assumed in the neoclassical market theory, they are not able to identify, manage or price into their behaviour a range of market risks (and incentives). Accordingly, Ben-David proposes a new regulatory objective:

> To avoid exposing consumers to risks they are ill-equipped to understand, manage or price

Ben-David argues that this does not compete with the existing National Energy Objectives which focus on efficiency but may temper how they are applied. Indeed, as noted above, the existing NEOs are largely supply-side management objectives which either assume that the supply outcomes will inevitably be good for consumers or that consumers are equipped to navigate how those objectives play out in the market. The history of significant energy price rises and the challenges of the energy transition suggest that this is simply not the case. Given this, there is a clear need for a more robust regulatory objective to ensure that, *if the market is not guaranteed to result in benefit to consumers, and/or consumers are not able to protect themselves from adverse market forces, then it is only reasonable that the regulator has the responsibility to protect consumers from harm*.

In SACOSS' reading, the objective proposed by Ben-David is not about and does not require taking away decision-making from consumers, but is rather about ensuring that those decisions are between reasonable and beneficial options, or only carry risks that consumers have the power to manage. Accordingly, ***we ask that the Committee recommend the addition of a harm or risk minimisation objective in the national energy objectives***.

Thank you for your attention to this submission. If you wish for any further information, or would like SACOSS to appear before the Committee, please contact our Senior Policy and Research Analyst, Dr Greg Ogle at greg@sacoss.org.au or on 8305 4229.

Yours,

Ross Womersley, CEO
17 October 2024

Built-in not bolted-on:
Statement of support to include social equity and demand side objectives in amendments to the National Energy Objectives

We are a broad coalition of community, business, environment, and research sector organisations who are calling on energy Ministers to incorporate social equity and demand side objectives, in addition to emissions reduction objectives, into the National Energy Objectives (NEO).

Energy is an essential service. It plays a critical role in the health and well-being of people, and powers the economy. However, the energy system is rapidly and profoundly changing and the laws that govern our energy system have not changed to meet the new challenges. If we get the settings and systems right, our future energy system won't just be clean, it will also be cheaper and fairer for everyone. If we get the settings and systems wrong, the transition will be unnecessarily costly, inequitable, unreliable, and slow.

Our organisations welcome the collective leadership of Energy Ministers on emissions reduction inclusion in energy law and support the proposal to introduce an emissions reduction objective in the NEO. We agree it will send a clear signal to the wider industry, market participants, investors and the public of the need to achieve a decarbonised, modern and reliable grid.

However, the inclusion of a decarbonisation objective will not on its own address the challenges around increasing energy systems costs, rising energy bills, reliability and resilience, and growing inequity. As outlined below, we believe social equity and demand side objectives must also be included in the current proposed amendments to the NEO.

Social equity objective will reduce energy poverty and inequality

With the rapid pace of energy transition, people experiencing financial and social disadvantage, particularly First Nations communities, are at risk of being left behind and energy poverty and inequality increasing. Changes to the energy market design, rules and regulations; growth in new technology, products and services; shifts in global and local energy market conditions; and the unequal distribution of energy market costs, have already created wide-ranging and severe social equity impacts, with the potential to get worse. People experiencing financial disadvantage pay disproportionally more for the energy transition and many are missing out on some of the benefits.

The current framing of the NEO does not give regard to the social or distributional impacts of energy policy or regulatory decisions, especially for low-income and disadvantaged households that go beyond just 'price'. We believe with clear objectives, market design, rules and regulations can make a positive contribution to social equity, by:

- Distributing costs, benefits, and risks transparently and fairly to allow for equitable outcomes regardless of people's ability to engage with the energy system
- Incentivising energy market participants to innovate in ways that bring benefits to all consumers
- Providing appropriate protections to support people to access affordable, efficiently priced basic energy supply regardless of how much or little they interact with energy services.

Given the essential nature of energy supply, it is important that market bodies and market participants place social and distributional impacts at the center of energy policy and regulatory decisions. Incorporating an explicit reference to social equity in the NEO would ensure this fundamental consideration is part of decision-making.

Reduce energy bills and improve energy affordability by improving energy performance

The NEO needs to focus on reducing total energy bills and making energy affordable for all Australian households and businesses. The NEO's current focus on 'price' fails to encourage improvements in energy performance and efficiency that can slash energy bills, even as the prices charged for energy go up.

Energy efficiency, electrification and energy management can have a direct and immediate impact on reducing emissions and energy bills, reducing the exposure of consumers to energy price shocks. Study after study has noted energy efficiency techniques as some of the cheapest abatement available and it remains a substantially untapped resource in Australia.

Including a focus on the 'cost of energy bills' or 'energy affordability' in the objectives would place greater emphasis and investment into energy performance and demand management both in front of the meter (energy system) and behind the meter (the house or business).

More efficient, effective and in the interest of consumers to make a suite of changes now

Given the time and resources required to amend energy laws as well as to socialise and implement changes, it would be more efficient and effective to make a suite of interrelated changes now. This will also ensure that the broader benefits to consumers, society and the economy are realised sooner.

In the consultation paper, Ministers acknowledged these as important matters for future consideration. At a minimum, it is our shared view that all Australian governments should commit in principle to making these changes and outline at the next Energy Ministers meeting their next steps and timeline on these important system reforms.