

CSR LIMITED

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17 October 2017

Kris Funston
Executive General Manager
Australian Energy Market Commission
PO Box A2449
South Sydney NSW 1235

Dear Mr Funston:

RE: Five Minute Settlement (ERC 0201)**Introduction**

CSR Limited, a manufacturer of building products is in the Top 100 ASX index. The company operates with five divisions, CSR Bradford™, PGH Bricks, Monier Roofing, CSR Lightweight Systems which includes Gyprock™ Plasterboard, cement sheeting, ceiling tiles, Hebel and the glass division, Viridian™. The company employs approximately 3500 people across all states and territories. It manufactures or processes product in every state and territory. On the east coast the company purchases over 6 Gj of gas per annum and 300 GWh per annum of electricity. In addition, CSR has an effective interest in the Tomago Aluminium smelter of 25.2%.

CSR is strongly impacted by energy and carbon policies, market structures, and supply. Energy was a competitive advantage against import competition for many years. Recently this has turned to a competitive disadvantage for both power and gas. Furthermore, the company's brick facility has been impacted by power outages in South Australia and production was curtailed at the Tomago smelter near Newcastle in February 2017.

CSR's energy cost has risen by 17%

CSR Building Products national energy expenditure has now increased to over \$100m. This is a 17% increase from previous year, where energy commodity costs are the main reason for the increase.

To better manage the increased power costs, CSR has set aside a \$20m fund to invest in energy improvement initiatives. This include installation solar PV, heat recovery, and alternative fuels. CSR has also completed extensive preparatory work (including automation of electricity price triggers, testing and established operational procedures to participate in demand management to reduce consumption during high electricity spot prices.

Five Minute Settlement will favour battery technology and increase the cost of \$300/MWh caps unless the accuracy of the pre-dispatch schedule is improved.

CSR is supportive of the rule changes that removes the ability for generators to increase their bid in the last 5-minute intervals, raising the 30-minute settlement price and preventing the opportunity for demand management.

CSR is also supportive of market changes that is open to all technologies to allow the market to decide the lowest cost for a variety of options. CSR is concerned that the proposed rule change towards Five Minute Settlement will favour certain solutions such as battery storage that are still in the early stages of large scale implementation where the cost and benefit of such technology is uncertain. This will reduce the ability of current generators to provide \$300/MWh caps such as open gas turbines that require approximately 15 minutes and Hydro pump storage that requires over 3 minutes to ramp up to 50% capacity (Reference: EnergyEdge presentation to the AEMC Public forum dated May 2017). New battery storage will need to make a return on their investment, the Tesla battery in South Australia is expected to cost over \$50m and limiting supply from other competing technologies will increase cost.

To prevent this from occurring, AEMO needs to prepare and publish a pre-dispatch schedule over the five-minute resolution for the entire trading interval rather than just the next 60 minutes. The AEMC needs to look at tightening generator offers so that the pre-dispatch schedule can provide an accurate forecast of the expected five-minute electricity price. This will allow generators and demand side participants that require 30 minutes and more to participate with certainty and reduce overall cost.

Increase in electricity swaps and Liddell closure in 2022

CSR is concerned that contract liquidity for electricity swaps will be further reduced because of the rule change. We have seen base load thermal generators close over the last 2 years with Northern and Hazelwood power stations and new generation capacity is entering in the form of intermittent wind and solar generation currently not offering firm swap contracts. Large scale battery storage is only just being deployed and is yet unproven on its ability to provide the firming services for intermittent generation. Given this background, CSR finds it difficult to understand why the AEMC has proposed a start date of 1 July 2021 when in NSW the Liddell power station is scheduled to close the following year.

AEMC needs to ensure that the Five minute settlement does not affect the ability of market to manage risk

This submission outlines CSR's concerns and would ask for the AEMC to address the following statement posed in the draft determination

"The Commission would be concerned if a move to five minute settlement affected the ability of market participants to manage risk through the wholesale contract market, as this could damage competition in the retail market and lead to higher prices for consumer"

CSR believes that the AEMC needs to be able to adequately address this question to the satisfaction of market participants before moving forward in the proposed 5 minute rule change.

Should you wish to discuss this submission in detail, please contact me on (02) 9964 1027.

Yours faithfully



Andrew Cheah
Energy Manager
CSR Limited