



**CEMENT INDUSTRY
FEDERATION**



Cement Industry Federation

Submission

STRATEGIC ENERGY PLAN

Consultation on Proposed Metrics

November 2018



Adelaide Brighton Ltd



Introduction

The Cement Industry Federation (CIF) appreciates the opportunity to comment on the Energy Security Board's *Strategic Energy Plan - Consultation on Proposed Metrics* paper dated November 2018.

The CIF is the national body representing all Australian integrated cement manufacturers and comprises the three major Australian cement producers - Adelaide Brighton Ltd, Boral Cement Ltd and Cement Australia Pty Ltd.

Together these companies account for 100 per cent of integrated clinker and cementitious supplies in Australia. Cement is a critical input for Australia's residential and commercial construction industry, as well as for our major infrastructure projects.

As a significant industrial user of electricity to produce our products, CIF members consumed over 900,000 MWh of electricity in 2016-17.

Cement manufacturing is also highly trade exposed as an import competing industry (i.e. Australian cement manufacturers are required to compete against imports and it is therefore difficult to pass on higher costs). As such, the secure, reliable and affordable supply of electricity is a key competitiveness concern for Australian integrated cement manufacturers.

The CIF supports the development of a Strategic Energy Plan to improve clarity and direction for all stakeholders in the energy system.

A reliable, affordable, quality electricity supply is crucial to Australia's continued industrial and commercial prosperity, and to the standard of living currently enjoyed by Australians.

There is considerable evidence that the reliability of the National Energy Market is coming under significant pressure due to the changing generation technology mix. As identified in the Finkel review, there has been a significant failure in ensuring there is an orderly transition to new technologies in the electricity sector.

This has resulted in potential insufficient reliable baseload energy, based on the reports of a number of key bodies, including the Australian Energy Market Operator (AEMO), the Australian Competition and Consumer (ACCC), the Energy Security Board (ESB) and the Finkel Review.

Having tangible metrics in place to measure progress against key elements of the Strategic Energy Plan is essential to ensure confidence in Australia's energy system is restored, with a specific focus on reliability and affordability concerns.

1. Secure, Reliable and Affordable Electricity

The secure, reliable and affordable supply of electricity is a key competitiveness concern for large users of energy and electricity such as Australian cement manufacturers.

Electricity is an essential input into the cement manufacturing process, both in terms of operating essential equipment and in the grinding stage of the operation – where the calcined material (clinker) is ground with gypsum and/or other materials to produce cement.

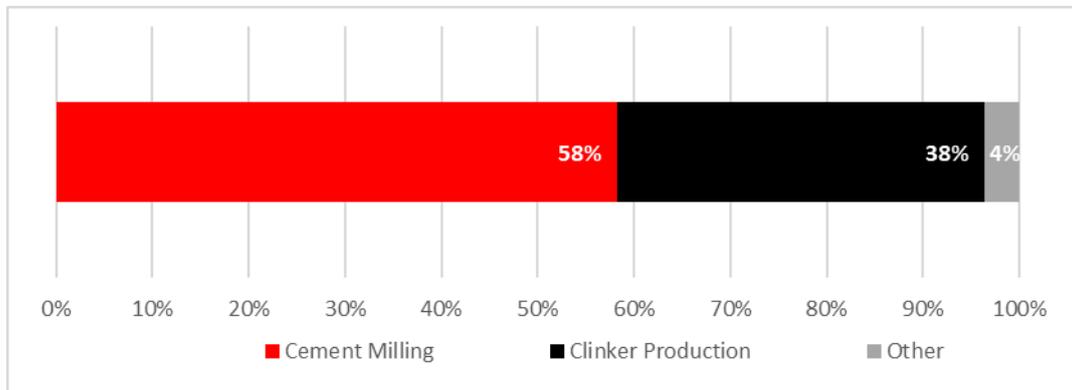
CIF members consumed over 900,000 MWh of electricity in 2016-17. Of this cement production accounted for around 58 per cent, clinker production 38 per cent, with the remainder used for other ancillary services (Figure 1).



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Access to secure and reliable sources of electricity is therefore critical to maintaining the international competitiveness of integrated cement manufacturers in Australia.

Figure 1: Cement manufacturing and electricity use¹

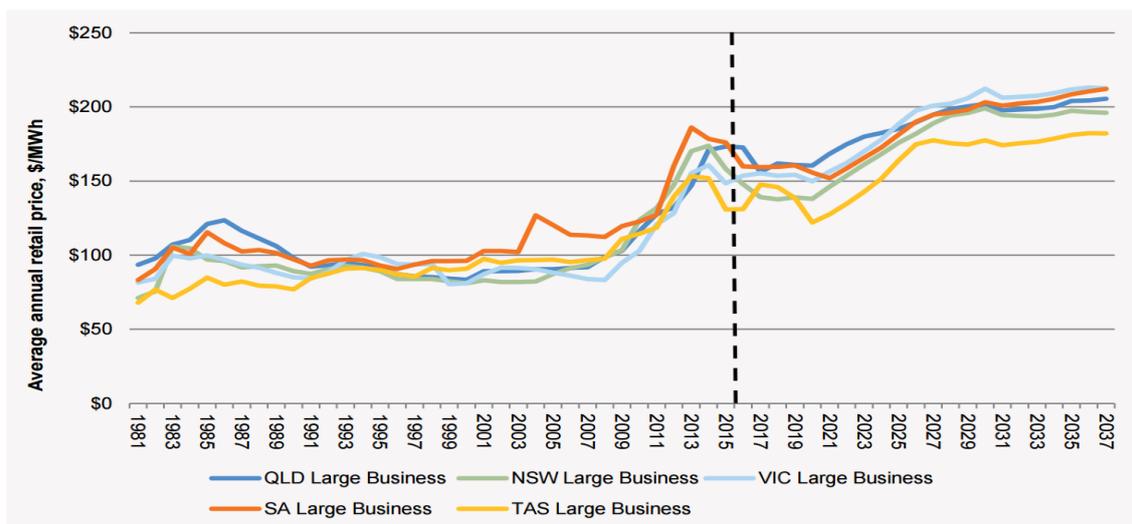


Supply disruptions place significant pressure on our members' operations as they strive to meet customer demands for their products. CIF members are considering or have already implemented contingency plans in order to protect themselves from market instability.

Such plans typically involve significant extra costs in terms of capital and fuel, impacting on the long-term competitiveness of our operations.

Affordability is also an important issue, particularly since energy use can represent over 20 per cent of production costs. Electricity prices, particularly for large businesses, have increased sharply since 2009 and are forecast to continue rising (Figure 2). The significant upward price trend in energy prices, including gas in terms of access and price on the east coast, coupled with increasing intermitted generation in the NEM continues to distort market prices.

Figure 2: Electricity prices – large businesses: historical and forecast (Real, Dec 2015)²



¹ Source: Cement Industry Federation 2017

² AEMO, 2016. National Electricity Forecasting Report, June

2. CIF Views on the Proposed Evaluation Metrics

Outcome: affordable energy and satisfied consumers		
Objectives	Proposed Metrics	CIF Comment
Energy is increasingly affordable for all consumers, supported by adequate consumer protections and access to dispute resolution	<ul style="list-style-type: none"> • Reduction in energy spend as a % of household disposable income • C&I customers' energy costs are competitive with international counterparts • X% consumer disputes/complaints resolved by retailers/ombudsman schemes 	<p>Electricity is an essential input into the cement manufacturing process.</p> <p>Access to secure, reliable and affordable sources of electricity is therefore critical to maintaining the international competitiveness of integrated cement manufacturers in Australia.</p>
Consumers are empowered to manage their demand and can access distributed energy and energy efficiency solutions	<ul style="list-style-type: none"> • Increase in consumers accessing data related to their energy usage • Increased participation in wholesale demand response or energy efficiency programs year on year 	The CIF supports these proposed metrics in principle. However, in terms of energy efficiency, the CIF would not like to see a return to mandated programs such as those that existed under the Energy Efficiency Opportunities Act.
Consumers are able to easily identify and secure the best deal for their circumstances	<ul style="list-style-type: none"> • Increasing percentage of consumers on better/best contracts • Increasing number of consumers using energy data and analytic tools (EME, switching sites, flipper sites) to make energy decisions • Consumers can switch retailers in "five clicks" or less and will be changed to their new provider in less than 2 business days 	No objections.
Vulnerable consumers are on suitable pricing plans, receiving concessions when needed, and can benefit from distributed energy and energy efficiency schemes	<ul style="list-style-type: none"> • 100% of vulnerable consumers on better/best market contracts • Clear hierarchy of easily accessible support and concession measures available for vulnerable consumers • Energy efficiency, solar and/or storage programs implemented in public housing where cost efficient 	No objections.



Outcome: Secure electricity and gas system		
Objectives	Proposed Metrics	CIF Comment
Markets operate safely, securely and efficiently, under full range of operating conditions, with minimal intervention	<ul style="list-style-type: none"> • Electricity market operates within power system security standards (frequency operating standard) and technical requirements (voltage, temperature, current limits) <ul style="list-style-type: none"> o Market operated in secure state for greater than X% of time each year o System wide outages (aggregation of network and any generation related) less than X% per year o System interventions < X per year • Gas system operates securely within technical operational parameters 	The CIF supports measures to ensure the safety, security and efficiency of markets.
System planning and development is informed by clear and transparent rules	<ul style="list-style-type: none"> • Measurable progress against a roadmap setting out development and implementation of solutions to identified system and market issues • Review of National Electricity Rules conducted by ESB by 1 July 2020 • Establishment of the Cyber-Security Framework and implementation for high and medium risk participants within established timeframes • Adaptation processes are in place to upgrade energy infrastructure to deal with increasingly severe weather events and cyber-security risks 	No objections.



Outcome: Reliable and low emissions electricity and gas supply		
Objectives	Proposed Metrics	CIF Comment
Electricity and gas sectors efficiently deliver at least their share of emissions reduction target/s while ensuring reliable supply	<ul style="list-style-type: none"> • Electricity and gas sector emissions reduce in line with the sectors' share of national emission reduction target/s • Reliability standard achieved • Annual reduction in number of times RERT procured and activated • Development of, and then maintenance of or improvement in, key metrics: <ul style="list-style-type: none"> o Strategic reserves o Flexibility and dispatchability 	The CIF supports reducing electricity and gas emissions in line with the sector's share of national emissions reductions targets – provided the reliable and affordable supply of electricity is not compromised.
Investors efficiently manage risk to support investment, operation, retirement and innovation decisions	<ul style="list-style-type: none"> • Accurate and transparent market information on forecast demand, generation investment and generation withdrawal to inform market participants (and potential participants) • Average forward swap and cap contract prices for electricity in line with the efficient levelised cost of energy • Cost of capital for new electricity and gas market investments are competitive with international standards • All market participants comply with any rules around notice of closure 	The CIF supports metrics that facilitate the provision of accurate and transparent market information across the NEM to ensure that potential shortfalls can be addressed in a timely manner.



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Outcome: Effective development of open and competitive markets (where appropriate)		
Objectives	Proposed Metrics	CIF Comment
Wholesale and retail markets are competitive and deliver efficient outcomes for consumers	<ul style="list-style-type: none"> • Retail and wholesale prices over time (contract and average spot) reflect the long run marginal cost of producing electricity and gas • Market concentration continues to decline across all regions • Reduction in # of customers on standing offers over time • Increase in new market participants year on year 	<p>The CIF supports the development of open and competitive markets for the supply of energy.</p> <p>However, where market interventions and/or market failure are found to have impacted on the supply and/or cost of electricity, then further actions may be required to ensure the continued supply of reliable and affordable energy is maintained.</p>
Deep, liquid and transparent financial markets for electricity and gas and related services	<ul style="list-style-type: none"> • Increase in transparency of contract markets (prices, duration) for products including swaps, caps, PPAs and demand response • Increase in the ratio of traded volumes to demand for the physical product for gas, power and coal over time (establish benchmarks based on other global markets) • Increase in gas secondary trading volumes, for commodity and transportation 	No objections.
Access to efficiently priced fuel and transport	<ul style="list-style-type: none"> • Increase transparency of metrics on fuel reserves and prices (coal, gas, hydro) • Commodity costs competitive with international spot price less liquefaction or shipping • Increased transparency in gas transport costs 	No objections.
Innovation is incentivised and enables value from new technologies	<ul style="list-style-type: none"> • Creation of value streams for the efficient delivery of system security services (e.g. inertia, fast frequency response) • Increased uptake of service provision from DSR & DER (volume year on year) • Increased transparency of information and knowledge sharing from proof of concept trials 	No objections.



Outcome: Efficient and Timely investment in Networks		
Objectives	Proposed Metrics	CIF Comment
Investment solutions are optimal across all resources	<ul style="list-style-type: none"> • Congestion levels are not material or are being examined through RIT-T/Ds • Reduction in market impacts (costs) of inter- and intra-regional constraints • X% of smart meter customers on cost reflective network tariffs by jurisdiction • Reducing generation connections times from project commitment • ISP/RITs consider non-network solutions and investments are undertaken where in customer benefit 	No objections.
Efficient regulation of monopoly infrastructure	<ul style="list-style-type: none"> • Cost of capital for new network investments in line with international standards • Development of, and then maintenance or improvement in, performance and productivity metrics on regulated networks - e.g. network productivity, utilisation, affordability, reliability, customer engagement and/or connection 	No objections.
Networks incentivised to be efficient platforms for energy services	<ul style="list-style-type: none"> • Increased integration of distributed energy resources in distribution networks • Increased transparency in prices and obligations for distributed energy resources connecting and using the distribution network • Time taken to consider and process rule changes and regulatory approvals in line with best practice international regulatory processes 	<p>The CIF supports the proposal for increased integration of distributed energy resources in distribution networks.</p> <p>However, this must be carefully managed to ensure that system reliability is maintained and costs are minimised.</p>



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3. Further Contact

Thank you for the opportunity to provide the above comments. The CIF welcomes the opportunity to discuss any of the comments included in this submission.

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