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Department of Planning, Industry and Environment
By email: energysecurity@environment.nsw.gov.au

NSW Energy Security Target and Safeguard Consultation Paper

To whom it may concern

Thank you for the opportunity to make a submission to the Energy Security Target and Safeguard (EST&S) Consultation Paper.

About BlueScope

BlueScope is a publicly listed (ASX: BSL) flat steel products manufacturer, headquartered in Melbourne and with manufacturing operations in 18 countries. The company employs approximately 14,000 people worldwide, including about 6,200 in Australia.

In Australia, BlueScope manufactures approximately 3.1 million tonnes of steel products per year, with around 800,000 tonnes exported. The company also supports around 4,000 suppliers in Australia, with 500 of these comprising 95 per cent of its spend.

BlueScope's major manufacturing plants in Australia are the Port Kembla Steelworks and adjacent Springhill Works (total direct employment 3,500), the Western Port Works at Hastings, Victoria (700 direct employees), and the Acacia Ridge plant in Brisbane.

BlueScope's customers are in the building & construction, manufacturing, steel processing, distribution and agriculture sectors, and rely on us for high-quality, competitively priced steel products as essential inputs for their businesses.

BlueScope operates in very competitive international markets, with few restrictions on steel imports (many major Asian steel producers have zero tariff access to the domestic market, either due to preferential trade agreements, or because they are considered developing countries). Competition in export markets is also fierce, and some international competitors are extensively subsidised by their governments. In this environment, BlueScope must have a cost base for its Australian manufacturing operations that is internationally competitive.

BlueScope's Electricity Requirements

BlueScope's Australian operations consumes ~1,200 GWh of electricity per annum with over 75% of this load residing in NSW. As a large electricity consumer, energy affordability, reliability and security are fundamental to the competitiveness of our business. Over recent years, BlueScope has transformed its operations to return to profitability. Keeping domestic production costs competitive

remains paramount and energy is a major cost in steelmaking. More expensive energy directly affects our capacity to invest and provide employment.

Reliable supply is also important to BlueScope; unplanned outages would be costly and have long term implications for our operations. But reliability should not come at any cost. It is important that the system performs to the reliability standard in the most cost effective and efficient manner.

Comments on Consultation Paper

General Comments

BlueScope's strong preference is for market reform and policy to be focussed on NEM-wide transformation rather than state-based schemes. We believe that this approach will result in a more efficient investment of capital and a better cost outcome for all consumers. As generation becomes more dispersed and intermittent, it makes sense that States become more interconnected and the system is able to take advantage of geographical diversity to meet demand. Central to enabling this transition is having clear planning and direction at the NEM-wide level. State based schemes add another layer of complexity and run the risk of incentivising investment that is at odds with NEM-wide planning and / or the most efficient investment outcome.

Furthermore, there is already a large number of projects underway at the Federal / NEM level to implement new regulation or investigate changes that may be required to address some of the areas covered by the EST&S. While BlueScope understands that the EST&S is aimed at being complementary to these higher-level schemes, given that regulation is still being drafted (e.g. Wholesale Demand Response Rule Change) and market designs are still under consultation (e.g. ESB Post 2025 Market Design Review), we feel that there is a real risk of the EST&S duplicating requirements for reliability and conflicting with NEM-level market design and transmission investment planning.

Energy Security Target (EST)

The EST has been proposed at a level that would, if met, see investment in capacity beyond the current reliability standard. The forecast period is also envisaged to go beyond the timeframe of the NEM Retailer Reliability Obligation (RRO), incentivising investment 3 to 6 years into the future. BlueScope has concerns with both of these elements.

The current reliability standard of 0.002% has been set based on consultation, modelling and independent assessment of consumer reliability requirements. Schemes and obligations that go beyond this measure should not be implemented unless there is a clear demonstration that they are necessary to meet consumer reliability requirements. BlueScope is concerned that a perceived need to 'keep the lights on' at almost any cost has overtaken the more measured assessment that should be undertaken of the real reliability needs of consumers and the cost of meeting these needs. There is a risk that by focusing on one objective alone, consumers - including industry - will bear unnecessarily large costs. Having a target that seeks to meet a 1 in 10 year demand event as well as an additional 1360MW (two generating units) reserve seems excessive and beyond a capacity level that would meet the 0.002% reliability standard.

While using the AEMO ESOO forecast will provide a level of alignment between this scheme and other reliability measures and schemes, BlueScope is concerned that looking further out beyond the 3 year window of the RRO will introduce forecast risk that may lead to unnecessary corrective actions being taken by the Minister. The longer the forecast window, the more inaccurate a forecast becomes and with the market and grid changing so rapidly, there is also the risk of the forecast being outdated

very quickly. As such BlueScope questions whether the benefit of looking out further than the RRO outweighs the risk of unnecessary intervention.

Peak Demand Reduction Scheme (PDRS)

While BlueScope supports the use of demand side resources, where it is cost effective to reduce peak demand and the need to invest in costly generation and network upgrades, we are concerned that introducing another certificate scheme to incentivise peak demand reduction is unnecessary.

There are already network schemes in place that address this at a local level and the introduction of the Wholesale Demand Response Mechanism (WDRM) will help to facilitate demand response participation at a broader NEM level with commercial and industrial consumers.

A capacity payment scheme needs to also ensure that the capacity will be available ongoing, and this has the potential to be complex to administer and enforce. BlueScope believes that it would be prudent to monitor the effectiveness of the WDRM once implemented next year and work with Network Operators to enhance the effectiveness or uptake of their demand response products as a first step before moving to implement another scheme. If after these actions, a gap in peak demand response still exists, then the Government can look at whether a scheme or some other form of mechanism is appropriate.

If the Government were to pursue the PDRS, the allocation of the liability should be based on the principle of causer pays. Allocating liability and scheme cost based on electricity purchased, while simple, is not the most equitable allocation method as it could penalise large flat loads that do not cause peak demand events.

Energy Savings Scheme (ESS) Expansion

BlueScope is an active participant in the ESS with experience completing projects under both the PIAM&V and deemed methods. Two important elements of the current scheme are the exemption for EITE sites and the ability for exempt sites to still participate in the scheme. BlueScope's Port Kembla Steelworks has an exemption under the ESS and has also benefited from being able to participate in the scheme and implement projects that would not have otherwise progressed without the ESS incentive. BlueScope supports the expansion of the ESS under the assumption that the expansion does not impact either of these elements of the scheme.

BlueScope also supports further investigation into including clean fuel switching. Given the complexity and breadth of this topic, we believe that further targeted consultation with large energy users would be appropriate to flesh out the details of this expansion.

The decision to expand the scheme to activities captured under the SRES as the SRES is wound back should carefully consider whether further incentives are truly required for their uptake. We would suggest that the uptake of these activities is monitored against the level of incentive that they receive and they be included only if this research clearly demonstrates that it will be effective and the benefit will outweigh the cost of inclusion.

With respect to target setting, the increments need to be steady and published well in advance. One of the significant issues with the SRES is the lack of visibility and the volatility in the target that makes it extremely difficult to budget and for a large energy user, it can result in material increases in cost year on year. With already high electricity prices that act as a significant incentive to reduce consumption, the Department needs to closely monitor the target and certificate price to ensure that the cost of the scheme does not become excessive. As such, if there is room to reduce the penalty

price under the expanded scheme to keep prices within the limits of the cost-benefit analysis carried out by the Department, then this should be seriously considered.

BlueScope also supports the Department's options for improving rule review, development and implementation. Streamlining processes, fast tracking low risk rule changes and making the process more customer centric are all ways to make the ESS more accessible and efficient.

Conclusion

While reliable electricity supply is of critical importance to our business, reliability needs to be fit for purpose and delivered in the most cost-effective manner.

BlueScope has serious concerns regarding the implementation of the NSW Energy Security Target and Safeguard with respect to duplication and potential conflict with NEM-level initiatives that are already underway or under consultation that seek to address peak demand and reliability.

We support the of expansion the ESS with the continuation of the current exemption and site participation elements. As an active ESS participant, BlueScope would appreciate the opportunity for further engagement on the proposed expansion and amendments to the ESS as development progresses.

Thank you again for the opportunity to make a submission and for your engagement to date. We would welcome the opportunity to be involved in further consultation. If you have any questions, please do not hesitate to contact me on 02 4240 1749.

Yours sincerely



Bridgette Carter
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