

8 March 2018

Energy Security Board
National Energy Guarantee
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To whom it may concern:

National Energy Guarantee – Draft Design Consultation Paper

I am writing in response to the Energy Security Board's National Energy Guarantee (the Guarantee) Draft Design Consultation Paper released in February 2018.

As you may be aware, Australian Gas Networks, Dampier Bunbury Pipeline and Multinet Gas have come together to create the Australian Gas Infrastructure Group (AGIG). AGIG combines the strengths of the three businesses to form one of the largest gas infrastructure businesses in Australia, with almost 2 million customers across every mainland state and the Northern Territory, 34,000 km of distribution networks, 3,500 km of gas transmission pipelines, and 42 PJ of gas storage capacity.

Given our diverse network of assets, and extensive engagement with gas users, including electricity generators, AGIG has a strong interest in improving the functioning of energy markets in Australia.

We welcome the opportunity to comment on the draft design consultation paper. This submission focuses on three areas:

- the importance of an integrated approach to energy and emissions policy;
- the need to ensure technology neutrality in the design; and
- the detailed design of the Guarantee and its importance.

Integrated energy policy for Australia

The draft design consultation paper rightly recognises that the Guarantee cannot resolve all of the policy challenges facing the electricity sector, let alone the wider energy sector, in Australia today. These challenges have been most thoroughly discussed in the Finkel Review into the Future Security of the National Electricity Market (NEM) in 2017 with the formal responses to its recommendations now dispersed across a range of review processes. It is vitally important that energy policy is developed in an integrated manner. The Finkel Review discussed a "whole-of-system-perspective" in relation to energy market governance, and it is important that market participants and investors have a sense of how their part of the supply chain is expected to help address the various challenges. For the Guarantee, it seems particularly important to consider the emissions component from an economy wide perspective.

In this regard Chapter 4, on the “Commonwealth Government design elements”, focuses on a sectoral emissions reduction target for the electricity sector. It proposes adopting an electricity sector target in line with the national target of 26 to 28 per cent below 2005 levels.

This leaves a great deal of uncertainty as to whether targets might apply to other sectors of the economy, and at what level these might be set.

Furthermore, Chapter 4 also addresses review periods for the electricity sector target, the treatment of emissions intensive trade-exposed (EITE) activities, and the treatment of offsets, but solely for the electricity sector.

All of these issues are of relevance to a wider range of sectors, including direct users of natural gas, as well as other sectors of the economy. The electricity sector accounts for only around a third of Australia’s emissions. Therefore, it is important that all emitters and investors understand the contribution to emission reductions expected across the economy as whole.

A number of issues in the draft design paper, particularly those addressing emissions reductions, should be considered as part of consultations beyond the NEM and electricity sector, including but not limited to:

- sectoral targets;
- target review periods;
- treatment of EITE activities;
- offsets; and
- carry-forward and deferring compliance opportunities.

The Commonwealth Government should coordinate consultations on these issues involving industrial facilities (for example those captured by the Safeguard Mechanism including gas pipelines and users), as well as the agricultural and transport sectors amongst others. The integration of emissions policy across these sectors will help ensure Australia can appropriately make use of emissions reduction opportunities throughout the whole economy at the lowest cost.

Technology neutral design

Natural gas has an important role to play in both reducing emissions and improving the reliability of the NEM. The Energy Networks Australia submission to this enquiry, and the Gas Vision 2050, outline the importance of gas in meeting the short term and long term needs of energy users.

The high level concepts presented in the draft design suggest the Guarantee will encourage a range of technologies and sources of energy to achieve both the emissions and reliability guarantees. AGIG supports a technology neutral design as it promotes the lowest cost solutions, and we would therefore expect this will be reflected in the detailed design of the Guarantee.

Detailed design of the Guarantee

Finally, it is important to recognise that the Guarantee represents a significant change for the NEM, with significant flow-through implications for the energy sector more widely. It is therefore vital that sufficient time is taken in translating the conceptual framework presented in the draft design, into operational rules. This is particularly important for maintaining market confidence in forward contracts, hedging and the pooling of risk.

The implications of the design of the Guarantee will extend beyond electricity markets to gas markets. Therefore sufficient time must be available to analyse more detailed proposals as they are developed, and to provide feedback from the perspective of the gas market.

We look forward to working with the Board and the Commonwealth as the Guarantee and an economy-wide approach to emissions reduction are developed. Should you require any additional information please contact Drew Pearman, Manager Policy and Government Relations on 08 9223 4341 or email drew.pearman@agig.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Craig de Laine". The signature is written in a cursive style with a period at the end.

Craig de Laine
General Manager People and Strategy