

**AIGN Comments to Commonwealth Government
on the *National Energy Guarantee Draft Detailed
Design for Consultation – Commonwealth
Elements* (June 2018)**

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1 BACKGROUND

AIGN welcomes the opportunity to provide a submission to the Department of the Environment and Energy, on behalf of the Commonwealth Government, to the *National Energy Guarantee Detailed Draft Design for Consultation (Commonwealth Elements)*.

AIGN is a network of industry associations and individual businesses which contribute to the climate change policy discussion and see value in joint industry action on climate change to promote sustainable industry development.

In reading this submission, the Department should note AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy. This submission accords with the views of our members in general. However, at times, there are differences in the positions of individual members on specific issues. It is therefore important that the Department considers AIGN's feedback alongside responses made to the consultation paper by our members. This is especially imperative with respect to the National Energy Guarantee (NEG), which combines elements of both climate and energy policy in legislation for the first time. AIGN supports the joint consideration of these related priorities, noting the requisite balance of issues between large energy producers and consumers.

2 INTRODUCTION

AIGN members include a substantial proportion of Australia's trade-exposed activities including: aluminium, cement, petroleum, coal, and steel - in addition to members from the generation sector.

In a global market, where our international competitors are not subject to a carbon price, the effective exemption from the costs of the NEG

is critical to the ongoing viability of these sectors in Australia.

AIGN's position on climate change policy is underpinned by our principles (see Appendix to this submission).

2.1 Economic overview

For many years, Australia has been a destination for manufacturing industry, largely because of our competitive advantages in natural resources and affordable energy.

However, in a world that is increasingly addressing the impact of greenhouse gas emissions and moving toward pricing these emissions (or, already implementing climate change policies as we are in Australia), our comparative advantages have changed; the potential for economic growth needs to be unlocked with a clearly defined and deployed plan. Australia has an opportunity to meet demand in a world that will continue to require natural resources and manufactured goods amidst increasing global ambition to reduce emissions.

Our natural resources advantage remains to us. If harnessed with a strong and coherent vision and good policy settings, Australia has the potential to be an attractive investment destination, meeting our emissions reduction goals while nurturing a thriving economy and ensuring the security and reliability of our energy supply.

Noting the NEG's intended role in the latter goal, AIGN encourages the Government to consider this policy in a wider national and international context.

3 FEEDBACK ON DRAFT DETAILED DESIGN ELEMENTS

The feedback provided in this submission is framed by AIGN's agreed principles for designing policies to reduce emissions. Please note that AIGN members will have priorities that extend beyond those covered in this document, as outlined in their own submissions and engagement with the Energy Security Board and Government.

3.1 Exemptions for EITE activities

As detailed in our previous submission, AIGN believes that taking measures to safeguard our trade competitiveness will be essential to ensure Australia's climate policy is successful in reducing emissions, rather than simply pushing them offshore. Policy measures for this purpose should be designed to create marginal incentives for action without placing an onerous and inequitable overall cost burden on industry that cannot be passed through.

AIGN commissioned a research paper, by CIE Economics and CM Group, to better understand the direct carbon cost impost applied to our trade competitors (e.g. steel, LNG, petroleum, cement, aluminium, nickel). A copy of this report is available on AIGN's website (www.aign.net.au) and has been provided to the Department.

The policy model for trade exposed exemption applied under the Renewable Energy Target (RET) would provide eligible entities with a mechanism to ameliorate the direct impact of price increases associated with the emissions element of the NEG. Entities are still likely to experience indirect cost impacts and will be subject to the NEG emissions requirement for all non-EITE electricity use.

AIGN supports the proposed streamlining of EITE provisions across the RET and NEG policies, with an allowance for the addition of new or undefined EITE activities. In fact, AIGN recommends that EITE methodologies be harmonised across RET, NEG, and ERF safeguard mechanism policies. While the RET adopts an 'activity definition' model and a 'production variable' model is proposed under the safeguard mechanism, these could be aligned to provide administration simplicity and consistency of approach.

AIGN refers the Government to our members' submissions for more detail.

3.2 EITE administration process and audit requirements

AIGN appreciates the effort being made to add as little as possible to the administrative costs of liable entities by utilising existing processes through the Clean Energy Regulator (CER).

The proposal to require a single audit to meet compliance obligations under the RET and the NEG is certainly welcome. The extent of the regulatory burden can only be properly assessed when the detail has been drafted. AIGN looks forward to continuing our engagement with the Government, the ESB and the appropriate regulatory bodies, as this detail is developed. AIGN members have extensive compliance experience that the Government should draw on to promote the development of a streamlined regulatory framework.

3.3 Self generators

With the likely adoption of the existing RET EITE arrangements for the NEG, AIGN advocates that a similar approach with regard to self-generators would be prudent.

Self-generation, which is exempt from the RET, would support the objective of the reliability element of the Guarantee, and should continue to be encouraged.

3.4 Setting the target

The proposed sectoral approach to meeting Australia's emissions reduction target requires policy decisions dividing the target between sectors; this would render the market incapable of finding the lowest cost abatement options to meet our international commitments. In this environment, keeping abatement costs low becomes quite complex and necessitates further policy interventions. While the consultation paper does not address the cost of abatement, this Government has demonstrated an ongoing concern with the cost and effectiveness of abatement policies (e.g. repeal of the Clean Energy Act), not to mention a clearly defined objective to encourage economic growth and investment.

Despite these factors, AIGN notes the Government's continued preference for a proportional approach requiring energy retailers to achieve a 26 per cent reduction below 2005 levels by 2030. The justification for this approach includes "...the need to provide an affordable and reliable electricity supply."¹

For a trade-exposed industry in the Australian economy, investment decisions necessitate consideration of many factors. Leaving aside political and policy stability, relevant cost considerations for investment decisions extend well beyond electricity.

If the Government's chosen approach to reaching Australia's Paris goals results in high abatement costs through policies applying to AIGN members, the relative costs of electricity

will be ineffective in ameliorating such an impact; it will not deter decisions to funnel investment away from Australia (with predictable consequences for economic viability and prosperity).

AIGN urges the Government to consider the wider economic context (not only the costs of electricity) in setting the NEG emissions reduction target. Best available economic advice should be drawn-on to ensure the overall costs of abatement remain as low as possible across our climate change policy suite. Issues to be considered include:

- The incidence of abatement opportunities across the economy
- How Australia can meet its Paris commitments in the most cost-effective way
- The whole suite of climate change policies and how they contribute to the target
- The costs and impacts in other countries of meeting their targets (similar countries to ours e.g. OECD, but also major competitors)
- How state-based targets and schemes are impacting on the national target and policy suite
- How investment will be affected.

3.5 Participating jurisdictions

The consultation paper clarifies that at this point, the NEG is only going to apply to the National Electricity Market (NEM), with optional voluntary participation of other jurisdictions. However, the Government does not clarify what this will mean for the NEG target. The risk is

¹ NEG Draft Detailed Design for Consultation (Commonwealth Elements) June 2018, p 6.

that, much like the case with the ERF safeguard mechanism, the costs of meeting the target for the whole sector will fall on only a percentage of participants in that sector. This increases the cost of meeting the target on a subset of market participants while leaving others with no restrictions on their activity, working against the Government's intention to encourage economic growth.

3.6 Form of the target

AIGN appreciates the competing objectives the Government must take into consideration in choosing the how to configure the target. It is difficult to imagine how to set the kind of medium to long-term targets that will support potential investment without relying on forecast demand; however, AEMO's demand forecasts have frequently been unmet, as is common with economic modelling. An emissions budget would provide a controlled level of flexibility, and a review of the remaining budget in 2025 is also a sensible step that balances the need for flexibility with the need for certainty.

While encouraging investment is clearly on the Government's mind, AIGN is concerned with its being an important consideration across the spectrum of detailed design decisions – including the need to genuinely support the competitiveness of trade exposed industries, the way a sectoral approach to meeting Australia's target can be managed, and the potential role of domestic and international units.

3.7 External offsets

AIGN has long supported the use of international units (or offsets) in achieving lowest cost emissions reductions.

In a future that involves policies limiting emissions growth and/or pricing emissions, access to fungible units for liable entities will be

essential. With the policy suite now clearly favouring a sectoral approach to achieving Australia's emissions reduction targets, fungibility across domestic schemes should be a key consideration if abatement costs are to be kept in a relatively cost-efficient parameters.

A competitive, credible, and liquid market is necessary to ensure the success, efficiency and effectiveness of any emissions reduction policy. This should include credible local, as well as international, markets.

Confidence in the credibility of offset units can be provided by a strong yet sensible framework establishing their legitimacy.

Subject to this framework, the principle of lowest cost abatement should not be interfered with by placing arbitrary limits on the ability of offset units to meet targets and compliance obligations. Where an offset has been created, and the number of offsets used to meet an obligation, are not relevant considerations once the credibility of an offset has been established.

With the right structure, offset units will be valuable in minimising the costs of climate change policy on the economy as a whole, and on price takers in particular, while maintaining the integrity of the Guarantee, and the climate change policy suite more broadly.

3.8 Benefits of centralised, streamlined national policy

AIGN supports the development of policy that responds to the challenges of reducing emissions while protecting energy security and reliability.

Our policy principles set out our support for a simple yet efficient policy framework, which by definition preferences a national approach to a patchwork of differing state-based programs.

AIGN continues to support the findings of the 2008 Strategic Review of Australian Government

Climate Change Programs (the most recent piece of work for the Government on this issue),² which advocated an agreement between Commonwealth and State/Territory Governments to clearly delineate responsibility for all areas of the climate change policy portfolio, and found an excessive number of programs in existence (a finding that remains relevant today as their number has only been augmented in the intervening decade).

A sensible approach would be for State/Territory Governments to take responsibility for climate change adaptation policy and strategy, while the Commonwealth Government develops and implements a national mitigation policy.

Crucially, a streamlined policy environment is also more likely to attract the investment needed

to keep our industrial sectors competitive and viable.

4 CONCLUSION

Thank you for the opportunity to provide input into the development of the National Energy Guarantee. AIGN looks forward to future opportunities to engage and provide input as the policy continues to be developed and implemented; please contact Susie Smith (CEO, AIGN), with any further questions regarding this submission (ceo@aign.net.au).

² Strategic Review of Australian Government Climate Change Programs (www.finance.gov.au/publications/strategic-reviews).

Appendix

AIGN Policy Principles

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability³, to reduce greenhouse gas emissions and adapt to impacts of climate change globally.

Australia should engage the international community to pursue global action to reduce emissions leading to identified and beneficial outcomes which:

- allows for differentiated national approaches;
- promotes international cooperation;
- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances and aspirations of all societies; and
- is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach which:

- is consistent with the principles of sustainable development;
- is consistent with other national policies including on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long-term perspective;
- maintains the competitiveness of Australian export and import competing industries;
- distributes the cost burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively co-ordinated across all jurisdictions throughout Australia.

Australia's future greenhouse policy measures should:

- be consistent with the strategic national approach;
- be trade and investment neutral, in a way that does not expose Australian industry to costs its competitors do not face;
- not discriminate against new entrants to Australian industry nor disadvantage 'early movers' in Australian industry who have previously implemented greenhouse gas abatement measures;
- take account of the differing sectoral circumstances;
- be based as far as is practicable on market measures;
- address all greenhouse gases;

³ Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.

- address all emission sources and sinks; and
- balance, in a cost-effective way, abatement and adaptation strategies – both of which should be based on sound science and risk management.