

National Energy Guarantee Design Detailed Paper

Submission

Submitted via email:

nationalenergyguarantee@environment.gov.au

6 July 2018



Contents

1. Introduction
 2. Australian Wide Coverage of Emissions Guarantee
 3. Use of offsets
 4. Framework for Setting and Reviewing Emissions Target
 5. Conclusion
-

1. Introduction

Alinta Energy (Alinta) welcomes the opportunity to provide a submission to the Commonwealth Government's (the Government) National Energy Guarantee Draft Detailed Design Consultation Paper (the Design Paper).

Alinta is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,070MW of thermal generation facilities. Alinta has a detailed renewable investment strategy across Australia and is pursuing renewable energy projects at an increasing scale. Alinta currently retails electricity and gas to more than one million customers across Australia, including more than 510,000 customers in National Electricity Market (NEM). Alinta is committed to contributing to energy market development in all regions of Australia as it pursues its growth strategy.

The diversity of Alinta's portfolio, its investment strategy, product offerings, and first-hand experiences across multiple jurisdictions has allowed it to develop a detailed understanding of wholesale electricity markets across Australia and various jurisdictional emission reduction policies. Alinta is therefore well placed to provide informed comment in response to the Government's detailed design paper.

Alinta recommends that the Commonwealth Government focus on the following areas to guide and inform the further development of the NEG:

- 1. Ensuring that the emissions guarantee covers all jurisdictions (both NEM and non-NEM) within Australia as a fundamental starting point.**
- 2. Allowing international and domestic offsets to ensure a lowest cost method of compliance for the market.**
- 3. Implementing the proposed framework for setting and reviewing targets of the emissions guarantee.**

These positions are further explored in greater detail below.

2. Australian Wide Coverage of Emissions Guarantee

Alinta operates across the NEM, in the Western Australian Wholesale Energy Market (WEM) and has significant energy interests in the North West of Western Australia. In doing so, Alinta is exposed to regulatory developments across all levels of government and is witness to various unique clean energy (renewables and energy saving) policies across different jurisdictions.

Alinta is committed to continuing to invest in renewable energy technologies across Australia and establishing lasting and positive relationships in the communities where we operate. However, an immediate barrier for Australia's electricity sector successfully transitioning to a low emissions economy is the absence of a national, coordinated, and long-term climate and energy policy. Coordinated and integrated long-term energy and renewables policy, which takes account all opportunities and challenges with a firm bipartisan commitment from both federal and state levels of government, will deliver the most affordable, reliable and responsible outcomes for consumers.

Alinta firmly believes this would be most efficiently and effectively achieved through a single national policy. The emissions component of the National Energy Guarantee (NEG) has the potential to be such a policy.

While Western Australia has requested the Energy Security Board (ESB) provide advice on how it might be able to participate in the emissions reduction requirement of the NEG, at present, the design of the emissions guarantee covers the east coast NEM jurisdictions only.

The Paris climate commitments are a national commitment for Australia. However, absent coverage of Western Australia and the Northern Territory, the NEG risks striking out vital economic regions of Australia from the emissions guarantee from the outset. An essential and fundamental starting point in transitioning to a low carbon future is the coverage of non-NEM jurisdictions within Australia inside the emissions guarantee.

As such, Alinta is strongly of the view that any emissions guarantee must be Australia-wide and should include the key regions of:

- **The Western Australian WEM located in the South West Interconnected System (SWIS);**
- **The North West Interconnected System (NWIS); and**
- **The Northern Territory Electricity Market.**

If the emissions guarantee progresses to the implementation stage absent these vitally important economic regions of Australia, the NEG risks creating complex interactions between various jurisdictional emission reduction programs in the future that could create distortions, increase uncertainty and deter efficient future clean energy investment. For example, Alinta is currently undertaking final investment decision on the 210MW Yandin Wind Farm located in Dandaragan.

The current uncertainty regarding Western Australia's absent coverage within the emissions guarantee of the NEG is putting renewable energy projects at investment decision risk. Initial analysis indicates that 1042MW (or \$1.77 Billion) of non-committed renewable energy projects in WA could be put at investment decision risk if WA remains absent from NEG emissions guarantee coverage.

Alinta suggests that the clearest way to achieve Australia's international abatement objectives is to ensure the emissions guarantee component can be met in a flexible and least cost manner. Alinta considers that this implies a holistic approach of geographic neutrality across Australia.

Alinta strongly supports the development of the ESB advice on how Western Australia may be able to participate in the emissions reduction requirement of the NEG as a logical first step to moving towards direct inclusion and would strongly encourage the Commonwealth Government to seek Australia-wide coverage of the emissions guarantee at the August COAG Energy Council Meeting, therefore ensuring Australia's emissions reduction goals can be met flexibly and at lowest cost to consumers.

3. Use of offsets

Alinta considers that global warming is an inherently international problem, and therefore requires an international solution. In this regard, Alinta supports the use of domestic and international offset units being allowed within the emissions guarantee to lower the overall cost burden on Australian energy consumers in reducing their carbon emissions.

Regarding domestic offset units, Alinta is of the view that the principle of lowest cost abatement should not be interfered with by placing arbitrary limits on the use of domestic units by liable entities. Domestic emission reduction offset units originating from the energy sector should be allowed and no quantity limits should be placed on their use by liable entities.

Regarding international offset units, Alinta is of the view that provided Australian regulatory bodies have confidence in the credibility and verification framework of the international offsets, then they should also be allowed to ensure compliance can be managed at least-cost. Alinta is of the view that some limitation should be considered on the use of international offsets to ensure Australia develops its own domestic capability to reduce emissions and not be reliant on international offsets into perpetuity.

A truly national approach to emissions reduction is required



The emissions guarantee must cover non-NEM jurisdictions within Australia. Geographic neutrality will ensure lowest costs for consumers in meeting Australia's Paris Commitments.

A fundamental starting point of the emissions guarantee is the coverage of non-NEM Jurisdictions within Australia such as the WEM, the NWIS and the Northern Territory. Geographic neutrality of the scheme will ensure lowest costs being faced by consumers to meet Australia's Paris Commitments.

Alinta supports the use of domestic offsets (no limit) and international offset (some limitation) being allowed within the emissions guarantee.

Alinta is broadly supportive of the proposed framework for setting and reviewing targets of the emissions guarantee.

4. Framework for Setting and Reviewing Emissions Target

Alinta understands the framework for setting and reviewing the emissions targets under the emissions guarantee will comprise of a fixed target between 2020 – 2030 with a review set for 2025. This aligns with Australia's international Paris climate commitments. Broadly speaking, Alinta is comfortable with this framework.

Alinta is of the view that the Australian energy industry can cope with emission reduction targets, provided targets are set with an adequate notice period that investors have confidence will endure the test of election cycles. Given the nature and scale of investment in physical generation plant in the energy sector, five years is necessary to provide investors the confidence they need to re-adjust their business model in response to any future variations in Australia's emission reduction targets.

Alinta considers the proposed five years notice of change within the emissions guarantee represents a suitable balance between the minimum notice required to make investments, whilst also providing flexibility for future Government's to adjust targets based on changes to international commitments or market demand.

5. Conclusion

As explored in the discussion above, Alinta considers the Commonwealth Government should focus further consideration to the following areas:

1. Ensuring that the emissions guarantee covers all jurisdictions (both NEM and non-NEM) within Australia as a fundamental starting
2. Allowing international and domestic offsets to ensure a lowest cost method of compliance for the market.
3. Implementing the proposed framework for setting and reviewing targets of the emissions guarantee.

Alinta looks forward to participating in the ongoing National Energy Guarantee design process.

Please contact Mr Anders Sangkuhl on anders.sangkuhl@alintaenergy.com.au or **02 9375 0992** if you have any queries in relation to this submission.

Yours sincerely,



Daniel McClelland
Executive Director, Corporate Services
Alinta Energy

National Energy Guarantee Design Detailed Paper Submission

Contact Mr Anders Sangkuhl on
anders.sangkuhl@alintaenergy.com.au

