



AUSTRALIAN
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GREENHOUSE
NETWORK

13 July 2018

COAG Energy Council
Energy Security Board

Energy Security Board Secretariat
Department of the Environment and Energy
GPO Box 787
Canberra ACT 2601

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Dear Energy Security Board,

**AIGN Comments on National Energy Guarantee –
draft detailed design consultation paper**

AIGN welcomes the opportunity to provide a submission to the Energy Security Board (ESB) to its draft detailed design consultation paper on the National Energy Guarantee (the Guarantee).

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.

The ESB should note AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy. It is therefore important that the ESB considers AIGN's feedback alongside responses made to the consultation paper by our members.

AIGN supports the joint consideration of these related priorities, noting the requisite balance of issues between large energy producers and consumers.

AIGN's focus is the emissions elements of the Guarantee, but makes the following brief comments for consideration of the ESB and attaches for reference our submission to the Commonwealth.

Specifically, AIGN advocates for:

- inclusion of appropriate provisions to address the competitiveness issues for trade exposed industry;
- flexibility to opt-in for large users;
- identification of reasonable alternative methods to avoid unnecessary costs and administrative burden associated with metering requirements; and
- order of calculation for application of the scaling factor to be changed to provide a fairer outcome.

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Trade-exposed industry

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 Guarantee is critical to the ongoing viability of these sectors in Australia. This is a priority issue for AIGN members and is outlined in the attached submission, which we provided in response to the Commonwealth Government's *National Energy Guarantee Detailed Draft Design for Consultation (Commonwealth Elements)*.

Large user direct participation

The proposal outlined in the consultation paper includes arrangements for large users (as defined in the upcoming legislation) to be directly responsible for their share of the reliability requirement, unless they take steps to assign this to their retailer.

Large users do not necessarily possess the resources to participate directly in the National Electricity Market (NEM) and have not traditionally done so. AIGN supports an alternative approach, in which retailers are responsible for meeting the reliability requirement for their customers' share of electricity use, but where large users (as defined in the upcoming legislation) may 'opt-in' to take direct responsibility for their share of the reliability requirement.

AIGN supports an opt-in approach (where large users are only required to act if they wish to participate directly in the NEG), over an opt-out approach (where large users who do not wish to participate directly in the NEG must act to enable their retailers to assume responsibility).

Metering requirements

Metering requirements to provide information on trade exposed industry load should recognise the costs and administrative burden on customers.

The need for on-site metering information will depend on the outcome of the application of the electricity use method for each site, in conjunction with the process for providing updates and determining the trade exposed load (and the associated scaling factor) progressively across the year. On-site metering is typically used only to meet process needs. Members are cautious about the systematic provision of detail beyond that taken from the NEM meters as this is likely to be a manual process with significant administration cost and effort.

Scaling

The order should be changed in which trade exposed exemption and scaling factors are applied.



The consultation paper proposes the application of scaling factors to adjust retailer load to account for the exemption of trade exposed load and the first 50,000 MWh of retailer load. The proposed approach deducts the trade exposed load from the retailer load and then scales up the remaining load by the scaling factor.

Customers with a trade exposed exemption certificate are concerned that, depending on their arrangements, the application of the scaling factor to the retailer load after their exemption has been deducted may mean that the retailer seeks to recover additional costs from them associated with scaling the load. This could be the case if their exemption is taken only to cover an unscaled block of load and cost of scaling up is passed through to customers as a separate cost.

There is a simple solution to address this issue by changing the order in which the calculation of the retailer's obligation is determined. The proposed change is to scale both the retailer's full load and the exemption certificate by the same scaling factor and then deduct the scaled exemption certificate from the full scaled load. This gives the same mathematical outcome in terms of the retailer's obligation, but from the perspective of the retailer (and more particularly the agreement between the retailer and the customer) the exemption certificate handed over by the customer fully covers the scaled load.

General policy design principle comments

AIGN makes the following comments based on its climate change policy principles (see attached).

Some issues of concern to some large customers (i.e. large users) are linked to how the policy is framed, or explained. AIGN requests that the above policy elements are addressed and, in formulating the final statements of policy position, that there is clarification around the policy intent. This will be significant both in addressing member concerns, and for the assessment by members of the draft legislation.

Banking and borrowing

Banking and borrowing arrangements are useful tools providing flexibility to liable entities; this flexibility, in turn, promotes the management of liabilities in a cost-effective manner. With this in mind, allowing for increased flexibility at the outset and tightening the rules if necessary, is in AIGN's view the better approach than the converse.

Penalties

Any steps to simplify administration are welcome. This is particularly relevant to the trade-exposed industry provisions. The attached submission outlines AIGN's views on harmonising the administration of related policy (e.g. Renewable Energy Target, the Guarantee, and safeguard mechanism).



An alignment of how penalties are expressed and applied under the Guarantee will avoid confusion and is worthwhile, even if the effect of the policy would remain unchanged.

Qualifying Contracts

Rather than the proposed date of 20 April 2018, AIGN recommends adopting the date the Guarantee is agreed by the Council of Australian Governments Energy Council, or the date the enabling legislation is introduced into the South Australian Parliament – for determining which contracts should be grandfathered for the purposes of compliance with the Large User Reliability Guarantee.

Triggering Regulatory Clause provisions

To avoid unnecessarily contractual issues arising because of the enactment of the guarantee, further consideration of the likelihood of triggering contract regulatory clause provisions should be given and addressed.

Allocation of emissions

Minimising administration and transaction costs should be a key focus of AEMO's operation of the Registry - all generators 'will have an administrative requirement to allocate all generation and associated emissions by the reporting and compliance date' –this should be as streamlined and practical as possible. Similarly, the process needs to balance emissions and reliability goals and not unduly penalise incumbent providers who are vital to underpinning the reliability of the NEM.

Coverage

Climate change policy ultimately needs to encompass a whole of economy approach. Sectoral (or sub-sectoral) policies should continue to be assessed in consideration of absolute and relative costs to achieve the Paris Agreement targets.

Use of offsets

AIGN has consistently supported the concept of offsets (from both domestic and international units) as a necessary measure to enable least-cost abatement through climate change mitigation policy. We have continued to represent this view to the Commonwealth Government in its deliberations on this issue. With the increasingly sectoral approach to climate mitigation policy that we are seeing in Australia, offsets become a crucial facilitator of fungibility not only across countries, but also across sectors within the Australian economy.



Thank you for considering our comments as you prepare the next stage of detail on the design of the Guarantee. AIGN looks forward to further engagement throughout the policy development process.

Yours sincerely

Susie Smith
Chief Executive
Australian Industry Greenhouse Network



ATTACHMENT: AIGN COMMENTS TO COMMONWEALTH GOVERNMENT ON THE NATIONAL ENERGY GUARANTEE DRAFT DETAILED DESIGN FOR CONSULTATION – COMMONWEALTH ELEMENTS (JUNE 2018)

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

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

- 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 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).



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;

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.



- 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;
- 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.