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6 July 2018

National Energy Guarantee

Submission on the Draft Detailed Design – Commonwealth Elements

BlueScope Steel (**BlueScope**) welcomes the opportunity to provide comments in response to the Department of the Environment and Energy consultation paper on the Commonwealth elements of the National Energy Guarantee (**Guarantee**).

BlueScope is Australia's largest steel manufacturer and the only flat steel producer. We employ 6,500 people in Australian regions and cities to supply our nationwide customers in the building and construction, manufacturing, transport, and agriculture sectors. BlueScope also exports steel products and is a global leader in premium coated and painted steel products, operating in 17 countries.

BlueScope is very concerned that electricity has become increasingly unaffordable and potentially unreliable for large, energy-intensive manufacturers.

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. Rising energy costs represent the single largest increase in BlueScope's local production costs. More expensive energy directly affects our capacity to invest and provide employment. As such, the Guarantee's aim of lowering the cost of electricity to customers is central to our support for the policy.

Historically, issues of electricity supply and reliability have not been regarded as particularly high risks to BlueScope's Australian operations, largely due to the significant reserve capacity within the National Electricity Market (NEM). However, recent assessments showing a reduction and potential shortfalls in the dispatchable capacity in the NEM and load shedding events last year raise concerns about energy reliability for BlueScope's process-critical operations.

BlueScope supports the aim of the Guarantee to deliver more reliable, affordable and cleaner energy to Australian consumers and welcomes this consultation on the detailed design of the Commonwealth's elements of the emissions component.

BlueScope believes that an effective Guarantee must:

- Deliver a material and sustainable reduction in electricity costs to all consumers in order to support and promote domestic investment and employment;
- Promote lowest cost reliability, abatement and compliance;
- Provide clear policy and investment signals to build an appropriate level of future dispatchable generation capacity;
- Have a positive impact on market efficiency and maintain market liquidity;
- Not reduce competition or increase the concentration of market power in the energy sector;
- Maintain flexibility for large energy users to manage electricity costs; and
- Safeguard energy-intensive trade-exposed industries (EITEs) from costs that jeopardise competitiveness.

Treatment of EITE Activities

BlueScope strongly supports the Commonwealth Government's view that electricity used to carry out EITE activities should be exempt from the Emissions Requirement under the Guarantee.

This position is consistent with current exemptions under the RET and is aligned with the shielding provided under previous energy and emissions policy frameworks.

The rationale for providing assistance to approved EITE activities is that trade exposed businesses are competing in an international setting where their competitors do not face a similar impost. EITE businesses are unable to pass on the additional cost of energy and emissions regulations to their customers, and to remain competitive must absorb the additional costs. Preserving Australia's international competitiveness is essential to maintaining sustainable on-shore manufacturing operations and the provision of significant employment opportunities to Australians.

BlueScope acknowledges the historical level of rigor and analysis involved in defining and establishing approved EITE activities, and supports the position that to retain consistency, all EITE activities eligible for the exemption under the RET should be eligible for an exemption from the emissions requirement under the Guarantee.

Given the extreme importance of the EITE exemption, BlueScope would appreciate the opportunity to continue to provide input into the development of the legislation that will govern the exemption under the Guarantee.

Specific Responses to Questions

| Question | | Response |
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| Section 2: Setting and reviewing the electricity emissions target | The Government's proposed approach to setting the initial electricity emissions targets under the Guarantee. | BlueScope supports the Government's approach in aligning the policy with Australia's commitment under the Paris Agreement and setting the target for the electricity sector in line with a 26 per cent reduction on 2005 levels by 2030. |
| | The Government's proposed approach to amending targets and setting future targets under the Guarantee: One option is for the Government to take account of variations in demand when the next set of electricity emissions targets are set by 2025. | BlueScope acknowledges the need to reduce the uncertainty created by regular changes to emissions targets. However, the materiality of the inaccuracy and impact on the cost of the scheme to customers must be considered. Only reviewing targets every 5 years may not allow this consideration. It may be advantageous for the government to set 5 year rolling targets to provide 5 years of certainty at any point in time but also provide flexibility to adjust 5 years of targets between 5-10 years on an annual basis. This will provide certainty in always having targets locked in for 5 years with the flexibility and foresight beyond 5 years should any adjustments be required due to variations in demand and market conditions. |
| Section 3: Implementing the exemption for EITE activities | Whether the proposed approach to streamline the RET and Guarantee exemption applications minimises any regulatory burden for EITE entities. | BlueScope believes that by retaining the CER as the regulator responsible for EITE exemptions, inconsistencies in the processes for exemption calculations should be avoided and the regulatory burden for applying for exemptions should be minimised. Given the proposal to utilise the same 'electricity use method' for calculating exemptions for EITE activities under both the RET and the Guarantee, BlueScope would see significant opportunity for the CER to streamline and minimise administrative requirements for applying for and processing exemptions. As such BlueScope is supportive of the approach being proposed by the Government to streamline the RET and Guarantee exemption application processes. |

| Question | | Response |
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| <p>Section 4: External Offsets</p> | <p>Whether market customers should be able to use offsets to reduce part of their emissions under the Guarantee.</p> | <p>As described by the Energy Security Board, the Guarantee is a way to “encourage new investment in clean and low emissions technologies while allowing the electricity system to continue to operate reliably”. The use of offsets to meet emissions requirement targets will reduce the overall contribution by the electricity sector to Australia’s emissions reduction efforts and so access to offsets should only be considered at a level where they do not reduce or delay investment in reliable lower emissions generation technology. A failure to ensure the necessary investment in new generation (and eventual replacement of aging assets) will create tight market conditions and result in a high cost and increased reliability risk to consumers. A balance in the ability to use offsets for emissions requirement compliance purposes is therefore required to ensure the Guarantee’s objectives are met, but at least cost.</p> <p>BlueScope supports the conditional use of offsets for the purposes of minimising the cost of abatement.</p> |
| | <p>The proposed approach to using offsets to be used for compliance under the Guarantee.</p> | <p>BlueScope supports market participants having access to both domestic and international offsets as a means of minimising the cost of abatement.</p> <p>Any cap and allocation of that cap should take into consideration the following high level considerations:</p> <ul style="list-style-type: none"> • The expected impact on reducing investment and the emissions reduction activities carried out by the electricity sector • Its impact on competition. Is there a need to aid smaller participants by allocating a cap equally or does the 50 GWh exemption proposed by the ESB effectively deal with this issue? • The impact on the cost of carbon abatement to the overall economy- with tightening of baselines under the Safeguard Mechanism, the Guarantee may cause abatement costs to increase if the market cannot support the level of demand created by both policies. <p>BlueScope also supports the Government’s recognition that quality and additionality are also important in ensuring that abatement is credible and not double-counted.</p> |

Please contact Bridgette Carter, Manager Energy Sourcing & Utilisation on 02 4240 1749 or David Jenkins, Manager Government Relations on 03 9666 4022 if further comment or clarification is required.

Yours sincerely



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