Citizens' Climate Lobby

Design Consultation on the Energy Security Board (ESB)'s

National Energy Guarantee (Guarantee)

Background

This document is a brief response representing **Citizens' Climate Lobby (CCL),** addressing some of the questions to stakeholders contained in the first public consultation paper for the (Australian) National Energy Guarantee (Guarantee) released by the COAG Energy Council Energy Security Board (ESB) on 15 February 2018.

CCL via CCL Australia welcomes the opportunity to provide input to the questions around the design of the Guarantee.

Our comments at this time relate to relatively high level issues of meeting the price objectives, the economic and the emissions reduction context

Our Contact Details

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Confidentiality and Privacy

Do you want this submission to be treated as confidential? Yes x No

ESB Contact Details

ESB Attn Kathryn info@esb.org.au - Thursday 8 March 2018 cob

Citizens' Climate Lobby

Dear Dr Schott AO,

On behalf of our board and members please convey our congratulations to the ESB on the report outlining options for this innovative policy, and our thanks for the opportunity to comment on the design of the new Guarantee.

Our brief comments come from the perspective of the Australian arm of a global and largely conservative citizens association of over 80,000 members. CCL is in essence a kind of world-wide household energy consumers club that advocates for a rising carbon pollution levy with a dividend paid monthly to householders - known as the carbon fee and dividend (CFD) model.

As everyone else has said as part of this consultation, we agree that it is vitally important that Australia gets energy affordability right.

We do need to also strike the right note with our inputs to global carbon pricing & emissions reduction trading - being encouraging of the global market so we can both buy good value and sell profitably.

There needs to be no doubt that the Guarantee can guide the market to enable all consumers to be able to more easily meet their energy needs with increasingly cleaner energy. Ongoing doubt about that would undermine access to two key opportunities in Australia :

1. Australia's ability to grow popular, business and 'poly-partisan' support for the increased economy-wide emissions reductions that are likely going to be needed in future, and

2. Australia's ability to access the powers inherent in a relatively free market to do the heavy lifting on solving the energy and climate dilemmas. Related to this opportunity is the potentially negative impact on the market to drive and grow our place as a major global energy and EITE goods exporter, this time in the emerging era of clean energy.

As each country develops its own instruments we are all still learning and mistakes will be made, lessons learned.

This Guarantee needs to succeed first time. To do that it we argue that it needs to have a backstop mechanism, an affordability guarantee for the energy guarantee if you like. And while we feel confident that low-emission dispatchability can be delivered while reducing energy costs, until the market as a whole has that confidence and proven capacity, a backstop seems wise.

Our key recommendation is that in order to 'backstop' the vitally important core affordability objective of the Guarantee, a steadily rising and regular cash dividend needs to be given directly to households, and it needs to be derived from a best-practice LCA-based GHG levy on all fuels as they enter into the economy.

A Guarantee backstop measure based on a household energy dividend would require some additional rule changes. We outline these below, along with brief comments on parts of the Guarantee consultation report.

We commend it to your board

Jodie Green Acting National Coordinator

Citizens' Climate Lobby

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Comment on treatment of the 'energy transformation' context

In several places the consultation paper seems to expose a premise that dispatchability is being equated with emitting sources.

It is our understanding that this premise might not be correct going forward, and so this raises a question about the potential need to consult more with emerging operators of, for example, renewable dispatchable generation, before progressing the current consultation.

Perhaps subsequent stages of consultation may benefit from an additional Appendix based on information from ARENA on 'renewable dispatchability'.

It would in addition seem justified to consider how to apply a separate emissions reduction obligation to the reliability and dispatchability obligation.

In addition, we are aware from our many conversations in the community that there are other ways to more fully capture what is meant by the 'energy transformation' that is underway, and to reflect that in the context of the Guarantee. For example by:

- Qualifying the use of the word 'gas' such as APPEA's use of 'gas' to include hydrogen.

- Not conflating spinning generators and their services with coal, gas and hydro generation - any thermal and any hydro can provide spinning systems, and there is an emerging array of them at every required 'time point'.

- Modelling grid demand growth that shows power sector growth in response to displacing gas and petroleum, including for very large users. This would be useful for assessing the suitability of the Guarantee to deliver under varying growth scenarios, where gaps for some types of retailers could be large and frequent.

- The potential that Australian EITE's will not necessarily avoid or limit using non-polluting emissions-free energy as it becomes abundant, and that they may in fact become large beneficiaries of global trade in a large range of emissions-free energy-intensive commodities. The success of this depends on the success of the Guarantee in lowering energy costs domestically, among other things.

Comments on the Emissions requirement

Comment on contracting and emissions

It is increasingly apparent that the emissions calculations for all fuel sources, for example wood, natural gas (methane) and coal, needs to include factors such as the fugitives' GHG impact of the fuel, and lost sequestration, ie not only the GHG's arising from the future combustion stage.

Comments on the Emissions requirement: Commonwealth Government

Comment on treatment of EITE

Australian operators of EITE's who choose to go down the path of providing a competitive low-emissions product, for example based on abundant clean local energy, may nonetheless benefit from having a way for that to be rewarded locally.

In Australia in 2018, with 100% of new generation in wind and solar, and with so much potential for affordable renewable dispatchable energy, it does seem a little odd that the framing we have for an emissions reduction obligation is as a financial and reliability liability and exemption - this seems unnecessarily limiting.

Can we suggest that rather than talking about 'preserving international competitiveness' it seems more appropriate to speak of growing this competitiveness, this time based on the renewable resource in our backyard.

Comment on treatment of external offsets and markets

Like many economists, corporations and government policy setters globally Citizens' Climate Lobby advocates globally for a carbon price as the quickest and cheapest way to reduce emissions.

In Australia, CCL agrees with many others that it is already well understood and extensively documented that the most effective known instrument for Australian domestic emissions reduction has been explicit carbon pollution pricing.

In spite of it being off the table now, CCL believes the explicit carbon pricing instrument will inevitably return to our climate and energy policy mix, and so a power market design exercise would ideally be openly cognisant of that possibility.

We believe that explicit carbon pricing will return to Australia for two reasons.

One, Australia's trading partners are increasingly establishing their own mechanisms. Therefore it will become increasingly economically rational for us to secure the resultant fossil energy dividends as well as income from trades related to successful emissions reduction, for ourselves, for our own economy, especially for our regional economies.

Two, to establish a political economy that can support policies that achieve both emissions reduction and ongoing high reliability requires a context of both genuine economic growth and genuine popular support.

In general, economic growth can be assured if households and thus businesses have more funds to spend, which can be assured by a Guarantee with an affordability backup mechanism.

In general, we suggest that popular support for emissions reduction could be assured if voters have and can afford visible and real choices about responding to price signalling, and especially if the funds to boost household spending on those choices come monthly and directly from the emissions reduction policies themselves.

The issues of global and local carbon pricing and external offsets are linked. Trades in emissions reduction is looming as a commodity worth trillions pa globally. Contrary to popular opinion, Australia is very well-endowed with opportunities for emissions reductions, especially perhaps in the electricity sector. Therefore it seems prudent to signal willingness to contribute to this emerging global market as part of the Guarantee, which given Australia's leadership role, will be viewed by many other parties. It is therefore even more important that with external offsets very high standards are met, and ratchetted, and that at the same time deleterious investment leakage prevented.

Conclusion - CFD as an affordability backstop for the Guarantee

It is clear, given Australia's lessons learned, that the Guarantee needs to succeed first time.

To do that we are arguing that it needs to have a backstop mechanism, an affordability guarantee for the energy guarantee, if you like.

The reasoning for this is that while there is emerging confidence that low-emission or even 100% renewable dispatchability can be delivered while reducing energy costs and providing regional benefits, until the market as a whole is sure about that, and has capacity, a backup built into the Guarantee seems wise.

Due to its simplicity, the CFD is an ideal addition or backup for other existing instruments. It could of course also function as a replacement in some circumstances, and is usually commended as a high-efficiency small-government policy, as we have advocated elsewhere.

In one version of the instrument the Commonwealth would need to enact the following;

1. Legislate the *Fee and Dividend* system
2. Enable the ATO (or similar) to collect the fee
3. Enable Centrelink (or similar) to distribute the dividend
4. Enable DFAT and other appropriate agencies to establish border adjustment facilities and calculate carbon price differentials with trading partners
5. Set the level of the fee and the rate at which it will rise - tied to the 5 year cycle of the PA, logically
6. Establish an independent process to consistently review and inform both the electorate and industry

APPENDIX How Carbon Fee and Dividend works - a snapshot

1. A **steadily rising fee** is placed on the 'CO2-e content' of fossil fuels at source, i.e. the point where they enter the economy – port, well or mine.

    a. This is simple to measure and administer - it is much easier to estimate CO2-e contribution from fossil fuels than to measure emissions from specific generators, and this is especially the case where CFD applies across the economy, to industry and vehicles as well.
    b. The fee would start low – around $15-20/ton of CO2-e and gradually increase at about $10/year. The steady increase provides certainty and predictability to industry, business, governments and household consumers and enables the nation to transition much more smoothly than will happen otherwise. For both smoothness and risk management the sooner it is started the better, as we are seeing with corporate internal carbon pricing.
    c. The fee is temporary - it is phased out within the last part of the 20-25 years it will likely take to do its job.

2. 100% of net revenue is returned to households as a monthly **dividend**.

    a. This ensures that many householders are able to both choose to respond to the price signal and buy cleaner energy and afford the price increases that will flow through the economy. This will enable businesses to increase prices, knowing that they can be afforded.
    b. More importantly it boosts the economy, keeps money circulating and enables businesses to keep market share while giving them incentive to transition to low-to-zero carbon sources of energy.
    c. The dividend enables electors to give their support for the fee which otherwise would be unpopular, thus ensuring it enjoys bipartisan support across the federation and across changes of government, even across the generations.
    d. The addition of many new jobs, including for electricity sector workers, will further stimulate the economy, as has happened under British Columbia's carbon tax and is predicted to happen under fee and dividend in USA in the REMI (Regional Economic Modelling Inc) Report http://citizensclimatelobby.org/remi-report/.

       Companies will be able to sell new technologies globally, will become more efficient with the energy they use, and more able to utilize Australia's clean energy resource, making them more competitive worldwide.

3. **Border adjustments** are used to ensure Australian industries are not disadvantaged by trading with countries without a comparable carbon price.

    a. Placing a tariff on imports from countries without a comparable carbon price, and giving rebates to exporters to those countries, encourages them to price carbon themselves, rather than have the price collected elsewhere.
    b. As is already increasingly happening, economies that join carbon clubs together can share policies and that may include adopting sympathetic border adjustments.
    c. This approach now has the support of very senior USA Republicans who have formed the **Climate Leadership Council** https://www.clcouncil.org/ to promote such a scheme in the US.

Who we are

Citizens' Climate Lobby is a group of volunteer citizens who advocate for a simple and effective carbon price to address global warming in the most transparent and equitable way possible. We have over 400 chapters operating in 33 countries. We formed in Australia in 2014 and have over 400 members in 130 of the 150 federal electorates. We have met with over 70 federal Australian MPs from all parties. We are strictly non-partisan and we encourage a bipartisan approach from all stakeholders.

We advocate the adoption of Carbon Fee and Dividend (CFD) as a primary means to address climate change globally. We believe this solution has much to offer the Australian economy and have described this in detail to several Government reviews over time.

We welcome the consultation on the NEG and see it as a positive step towards our goal of creating the political will for a liveable world. It comes at an important time when climate events are providing clear signals of change and thus giving us more incentive to act on what climate science has been predicting for decades.

Citizens' Climate Lobby