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CLEAN ENERGY COUNCIL

6 July 2018

James White
Assistant Secretary
Department of the Environment and Energy
GPO Box 787
Canberra ACT 2601

Submitted by email: NationalEnergyGuarantee@environment.gov.au

Dear Mr White,

**NATIONAL ENERGY GUARANTEE DRAFT DETAILED DESIGN – COMMONWEALTH ELEMENTS**

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine, geothermal and energy storage along with more than 5,000 solar and battery installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

We welcome the opportunity to respond to the National Energy Guarantee (NEG) Draft Detailed Design – Commonwealth Elements document. The CEC supports the intent to integrate energy and climate policy and achieve this in a manner that can finally overcome the continued politicisation of energy policy in Australia. However, the clean energy industry has continued concerns with key elements of the Commonwealth Government's proposal in relation to the NEG. These include:

- Disappointment with the position to adopt a 26 per cent abatement target for the energy sector under the NEG. Most credible analysis suggests that this target would deliver little or no new investment from the NEG and leaves responsibility for the energy transition to states and territories and energy customers. The energy sector can and should deliver a greater contribution to Australia's abatement target given the availability of low cost abatement in the energy sector, particularly relative to other sectors of the economy such as transport and agriculture.
- Strong opposition to the inclusion of offsets in the scheme. Offsets will simply result in liable parties deferring commitments that support new investment in generation, resulting in less new energy supply and therefore, higher wholesale and retail energy prices.

The CEC is broadly supportive of the NEG policy architecture being developed by the Energy Security Board (ESB), noting a substantial amount of detail is yet to be assessed and agreed. We will be providing a detailed submission to the ESB in response to its draft detailed design paper.

The feedback provided within this submission focuses on two chapters of the consultation paper of primary concern to the CEC, Setting and Reviewing the Electricity Emissions Target and External Offsets. The recommendations of this submission are detailed below.

## SETTING AND REVIEWING THE ELECTRICITY EMISSIONS TARGET

### Setting the emissions target

The greatest challenge facing Australian energy consumers is the continued increases in wholesale and retail electricity prices. The increase in wholesale prices over recent years has been the result of a number of factors, including the combined closure of ageing coal-fired generation at short notice and the under investment in new generation. In the recent year, there have been record levels of commitment in new clean energy generation, already delivering lower wholesale power prices today and into forward energy costs.

If the NEG is to be an effective policy in addressing affordability challenges for Australia, it must play an active role in continuing to bring forward investment in new energy generation. Unlike the Renewable Energy Target or proposed Clean Energy Target, the NEG is not explicitly designed to deliver a given level of new investment. The level of the abatement target adopted and implemented by the NEG will be the critical determinant in the level of new investment over time. The CEC, therefore, proposes that a legislated ratchet mechanism for increasing the target overtime be adopted. This would enable greater investor confidence over the long-term trajectory of the target while also ensuring the legislation is in line with the Paris Climate Change Agreement architecture that requires Australia’s nationally determined contribution be increased over time.

The CEC believes that the current emissions reduction target proposed for the electricity sector is inadequate, not ambitious enough and further risks undermining the policy’s widespread credibility. The paper reiterates the target for the electricity sector to be a 26 per cent reduction on 2005 levels by 2030. This target only accounts for the energy sector’s proportional share of emissions reductions. Without a clear plan for emissions reductions in other key emitting sectors, an unambitious target sets Australia on a path that risks falling short of meeting their nationally determined contribution of 26 to 28 per cent reduction across all sectors.

This emissions abatement target is expected to deliver little or no new investment from the NEG and leave responsibility for the energy transition to states and territories and energy customers. With a more ambitious target, this could instead be an opportunity for the energy sector to lead the transition towards meeting international emissions reductions obligations. The energy sector has the ability to deliver a greater contribution to Australia’s overall abatement target given the availability of low cost abatement technology, particularly relative to other sectors of the economy such as transport and agriculture.

Reductions in emissions in other sectors are not readily available and are significantly more difficult and costly to achieve than in the electricity sector. For example, emissions from the agricultural sector are predicted to increase up to 2030 due to an assumed return to average seasonal conditions and increased food demand. With no clear and comprehensive plan for reductions in these other key emitting sectors, it is clearly in the national interest that the energy sector therefore adopts a greater burden of the abatement effort. The electricity sector represents the best and least cost option for reducing emissions across Australia and a greater contribution by the energy sector could allow for a better managed transition for the agriculture and transport sectors.

Concerns with the proposed abatement target could be further compounded by the following factors:

- Any proposal to backload the emissions trajectory over the 2020 to 2030 period: The clean energy industry believes there is a strong case for front loading the abatement trajectory – that is stronger abatement targets earlier in the decade – in order that additional new generation is brought into the market sooner, resulting in lower wholesale prices. The earlier this occurs, the sooner electricity consumers will see lower wholesale prices and for longer.
- Exclusion of non-NEM regions from the NEG and its abatement target: WA and NT both have material emissions footprint for the electricity sector and the clean energy industry believes these regions should also have a corresponding policy mechanism and target in place.

**Timing and process for setting electricity emissions targets under the Guarantee**

The CEC maintains that the process for setting the emissions targets outlined in the consultation paper carries considerable risks that have not been fully considered. The paper states that the annual electricity emissions targets be set for the first ten years, with the target extended in 2025 for the period 2031 to 2035 and the process repeating every five years thereafter.

The CEC believes that this process guarantees a high degree of “lock in” with little flexibility to amend targets should unsustainably high wholesale power prices persist due to inadequate emissions reduction targets and under investment in new generation. Flexibility is needed to ensure that demand forecasts are consistent with targets and can be amended into the future. Whilst the CEC recognises that the market requires a certain degree of certainty and information for investment and operational planning, there needs to be a balance struck between the required flexibility for the targets to be effective and the consistency required to provide certainty to the market.

The CEC, therefore, recommends that emissions intensity targets for the electricity sector be reviewed on an annual basis, with a 5-year rolling forecast and a 3-year notification period. This would ensure that the market has sufficient information for investment and operational planning purposes. Starting from 2021, the targets would be adjusted for the period 2024 to 2029. In 2022, the targets would be adjusted for the period 2025 to 2030 with this process continuing on a rolling basis. It is of course critical that this rolling revision of targets is accompanied by a commitment that the targets would only ever be ratcheted upwards. Any reduction in forward targets would have a dramatic and detrimental impact on investment confidence and would undermine the integrity of the policy.

There is significant concern the proposed 5-year notice period would create risks in terms of attracting the requisite levels of new investment necessary to meet the target. The above-mentioned ratchet mechanism is far more effective with a modestly shorter notification period (3 years) in order for the policy to deliver a scale of investment that ensures Australia is able to achieve reductions in line with international obligations and those achieved in similar jurisdictions abroad. The CEC further recommends that the trajectory of the targets should be front loaded to ensure appropriate investment signals are sent to the industry and ultimately lowers electricity prices for Australian households in the process.

**Forecast and adjustments to the target**

The consultation paper notes that differences between forecasted demand and actual demand could impact the actual level of emissions reductions achieved in a given year. The paper, however, states that the Commonwealth is unwilling to review the targets each year based on revised demand forecasts as it would create uncertainty amongst market participants and could impact on investment. Instead the paper proposes considering revised demand forecasts when the next set of emissions targets are made in 2025.

The CEC believes failing to review and update the emissions intensity targets would introduce a significant risk that the total sector emissions will either exceed or fall short of the target. Therefore, the CEC strongly recommends that the target is reviewed on an annual basis to account for significant changes to demand, such as the closure of a large energy load in the system.

**EXTERNAL OFFSETS**

**The inclusion of external offsets**

The CEC is strongly opposed to the inclusion of external offsets to meet the emissions requirement. The inclusion of offsets is in stark contrast to the very objectives of the NEG to ensure reliability, affordability and environmental sustainability of Australia's electricity system. By allowing part of the emissions reduction obligation to be offset by the purchase of offsets, such as the Australian Carbon Credit Units or an international equivalent, the policy reduces the incentive for liable entities to invest in new generation to meet the emissions reduction requirements. This is particularly true when the emissions reduction target is modest and easy for retailers to meet as currently proposed.

While the use of offsets in a particular compliance year could result in lower short-term costs to consumers, the deferred investment in new generation that would result in higher wholesale power prices over the medium and long-term. This will result in a less reliable energy system and higher power prices due to reduced supply of generation, thereby fundamentally undermining the objectives of the NEG.

We thank you for the opportunity to contribute to these important matters and would welcome further discussions on the issues identified here. Please contact Lillian Patterson, Director Energy Transformation, on 03 9929 4142 or at lpatterson@cleanenergycouncil.org.au for any queries regarding this submission.

Yours sincerely,

**Kane Thornton**
**Chief Executive Officer**