



# Cement Industry Federation

## Submission:

NATIONAL ENERGY GUARANTEE

*Draft Detailed Design for Consultation*

*Commonwealth Elements*

**6 July 2018**





**C E M E N T I N D U S T R Y  
F E D E R A T I O N**

## **1. Introduction**

The secure, reliable and affordable supply of electricity is a key competitiveness concern for large users of energy and electricity such as Australian cement manufacturers.

Our members have been significantly impacted by electricity supply issues (e.g. South Australia's state-wide outage in 2017), as well as significant higher electricity prices across the National Electricity Market (NEM).

These supply and cost impacts have arisen due to several factors, not the least of which has been the inconsistent approach to climate and energy policy across the nation, as well as measures such as the Renewable Energy Target (RET) that sit outside of the NEM yet significantly impacts on its operation.

The CIF therefore supports moves to integrate energy and climate policy through the proposed Guarantee, which aims to provide investment certainty for the electricity sector while at the same time reducing emissions and ensuring the reliable supply of electricity at the lowest possible price.

## **2. Setting and reviewing the electricity emissions target**

**The Government's proposed approach to setting the initial electricity emissions targets under the Guarantee is supported.**

Aligning the target under the NEG with Australia's commitment under the Paris Agreement is a sensible approach that acknowledges current policy and avoids the obvious uncertainty and confusion that would arise if the targets were different.

The proposal to set the initial ten years of targets to be adopted under the Guarantee in either new or existing Commonwealth legislation would provide certainty for industry and the market over the medium term.

Once set emissions targets should be adjusted as infrequently as possible to reduce uncertainty. As such, taking account of variations in demand every five years would allow for a 'true up' without impacting on investment certainty.

Delinking the level of emissions per MWh that market customers must achieve from changes in demand appears to be a prudent approach, as it would provide certainty around the target.

However, the reliance on demand projections when setting the electricity emissions targets introduces a level of uncertainty that will need to be carefully addressed – particularly given the uncertain nature of electricity demand forecasting and the relatively long time frames involved (i.e. 2021-2030).

The Australian Energy Market Operator (AEMO) would need to be adequately resourced to ensure that their future demand projections are as robust as possible. This is imperative given the critical importance that electricity demand forecasts will play in calculating the electricity emissions targets to be included in legislation.



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Failure to do so raises the risk of emissions targets that are too lenient – ultimately resulting in less emissions reduction – or too stringent – placing an unnecessarily high cost burden on Australian manufacturers and the economy.

The CIF supports providing flexibility for market customers through the use of ‘limited carry forward and deferral provisions.’ Flexible compliance options have the potential to reduce the cost of the mechanism to market customers.

The CIF has a long-held view that a consistent and integrated approach to climate and energy policy across all Australian government jurisdictions will help to provide certainty and stability in the Australian electricity market.

A pragmatic coordinated approach to climate and energy policy at all levels of government would help to avoid price shocks and unintended impacts on Australia’s electricity system, whilst striving to achieve Australia’s climate change objectives.

While the CIF strongly advocates for the removal of state-based schemes and programs in favour of a single, national approach, we recognise that the political realities are such that this outcome is unlikely in the short to medium term.

As such, the proposal to make the emissions element of the Guarantee apply consistently NEM-wide appears to be a pragmatic approach towards addressing this issue.

### **3. Implementing the exemption for emissions-intensive trade-exposed activities**

**The CIF strongly endorses the Government’s stated intention to exempt all electricity used to conduct an EITE activity from the emissions requirement of the Guarantee from 2020 onwards.**

This is consistent with the approach established under the Renewable Energy (Electricity) Act 2000, which recognises trade competitiveness issues for critical Australian industries such as cement manufacturing.

The major global competitors in the cement industry are predominately based in Asia where many hidden subsidies are difficult to account for. One size does not fit all. If ‘carbon leakage’ concerns are not addressed, cement facilities and the associated jobs may be exported overseas.

Aligning the treatment of EITEs under the Guarantee with the existing RET exemption process is a logical step from a compliance perspective, as is maintaining the Clean Energy Regulator (CER) as the responsible regulator under the Guarantee.

The proposal to retain the electricity use method for calculating the exemption under the Guarantee is logical given that all EITE entities must have transitioned to this method by 2020.

The early preparation and release of method guidelines by the CER would greatly assist industry in preparing exemption applications, particularly considering that this process will be additional to the application process already in place under the RET.

Consultation with industry on the draft method guidelines is highly recommended.



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The proposal to align the definition of a 'prescribed person' for the purpose of applying for an exemption under the Guarantee with the RET is supported – noting the requirement to consider other matters relevant to the Guarantee.

The proposal to streamline the exemption application process for both the RET and the Guarantee through a single application to the CER is supported. While this approach is likely to increase the reporting burden for EITE industries, it is the preferred option over applying for both separately.

The Government has been clear that it has been guided by the principle of minimising regulatory and administrative burden when considering exemptions under the Guarantee. It is imperative that this principle of reducing regulatory burden is applied throughout the development of the required administrative processes by the CER.

This would include minimising the audit requirements under both the RET and Guarantee. Existing audit requirements, relating to this and other measures, are unnecessarily onerous and costly for industry.

Ongoing reporting requirements should aim to be less onerous than currently experienced. At the very least ongoing reporting requirements should be added to the scope of the current assurance framework.

In terms of administration, the proposal to align the exemption application process under the RET and the NEG (with exemption applications due between 1 August of the previous year and 30 March of the relevant RET compliance year) is supported.

The incorporation of additional requirements under the Guarantee is likely to add significantly to the workload of the CER and must be appropriately managed to reduce the risk of delays.

Overall, the process of applying for exemptions under the Guarantee is likely to increase the administrative burden on EITE industries. However, the CIF recognises the Government's intentions to minimise the additional burden through aligning the treatment of EITEs under the Guarantee with the existing RET exemption process.

Timely consultation by the CER with industry on key elements of the proposed process going forward, including the drafting of method guidelines, is recommended.

#### **4. External Offsets**

**The CIF supports the use of offsets, both domestic and international, to achieve lowest cost emissions reductions and minimising the costs of climate change policy on manufacturers and the national economy.**

While the inclusion of offsets would provide flexibility for liable entities to meet their emissions targets, it is acknowledged that a cap may be required to preserve the investment signal provided by the NEG.

The determination of the cap limit should be a transparent process and balance the twin goals of providing flexibility to the market and encouraging investment in energy infrastructure.



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The cap should be calculated as a percentage of the expected emissions reductions required to meet the 2030 target. This would ensure that the proportion of allowable offsets is adjusted whenever the amount of expected emissions reductions is adjusted.

A review into the use of offsets should be conducted at the same time intervals as other reviews proposed under the NEG (i.e. in 2025 and then every five years) and should consider a wide range of views on the effectiveness or otherwise of their inclusion.

Annual reviews are not supported in the context of the need for policy certainty over the medium term.

The use of both domestic and international units is supported, provided they meet strict quality and eligibility requirements.

The proposal to limit the number of offsets available to each market customer, in addition to a market cap, would address concerns over certainty and abuse of market power. To continue with this theme the cap would need to be divided equally between all market customers – not as a percentage of a market customer's load.

## **5. About the CIF**

The Cement Industry Federation (CIF) is the national body representing all Australian integrated cement manufacturers and comprises the three major Australian cement producers - Adelaide Brighton Ltd, Boral Cement Ltd and Cement Australia Pty Ltd.

Together these companies account for 100 per cent of integrated clinker and cementitious supplies in Australia.

## **6. Further Contact**

Thank you for the opportunity to provide the above comments. The CIF welcomes the opportunity to discuss any of the comments included in this submission.

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