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Energy Security Board  
By Email: [info@aesb.org.au](mailto:info@aesb.org.au)

**Re: National Energy Guarantee (NEG) Draft Design Consultation Paper**

Thank you for the opportunity to make a submission on the ***National Energy Guarantee Draft Design Consultation Paper***.

**Background**

CSR is a leading building products company in Australia and New Zealand which manufactures and supplies products including Gyprock™ plasterboard, Bradford™ insulation, Cemintel™ fibre cement, Monier™ roof tiles, PGH™ Bricks, AFS™ walling systems and Viridian™ glass.

CSR employs approximately 3,500 people across all states and territories. It manufactures or processes product in every state and territory. On the east coast the company purchases over 6 GJ of gas per annum and 300 GWh per annum of electricity. In addition, CSR has an effective interest in the Tomago Aluminium smelter of 25.2%.

Several of the company's facilities are treated as Emissions Intensive Trade Exposed (EITE) for the purposes of RET exemption. These are the Viridian clear float glass factory at Dandenong, Victoria and the Bradford glass wool insulation factories at Brendale, Qld and Ingleburn, NSW. Several other factories are high gas and electricity users, including PGH™ bricks and Gyprock™ Plasterboard.

CSR is strongly impacted by energy and carbon policies, market structures and supply. Over the last two years CSR Building Products national energy expenditure has increased to over \$100m. CSR has taken steps to actively reduce its costs, including:

- i. CSR is a gas market participant in the Victorian Declared Wholesale Gas Market (DWGM) and Brisbane Short Term Trading Market. CSR buys wholesale gas and supplies this to its manufacturing sites in Melbourne and Brisbane.
- ii. For electricity, CSR purchases its power via a retailer with spot price exposure. CSR then manages the spot exposure through hedging via the retailer and financial hedges with 3<sup>rd</sup> party providers under an ISDA.
- iii. CSR has a number of sites with back-up diesel generation and has recently invested in installing Solar PV at a number of its sites. The largest is 1 MW in Adelaide and will reduce the sites demand from the grid by 26%. CSR actively encourages demand reduction at its sites during periods of high spot prices utilising a CSR developed energy alert webportal and mobile app.

## **Overall Comment**

The Energy Guarantee has the potential to be very complex and will require significant consideration regarding the framework to ensure that:

- there is a competitive market,
- it does not increase costs
- it does not reduce innovation in the supply of electricity

Maintaining the competitiveness of emission intensive industrial energy users who are exposed to international trade is vital to ensure the on-going viability of manufacturing activity in Australia. CSR therefore support exemption of EITEs.

There is still much detail to be determined which will influence the success of the NEG. While CSR appreciates the sense of urgency by the Government in developing a durable framework the process should not be at the expense of adequate consideration.

The following pages specific responses to questions included in the ***National Energy Guarantee – Consultation Paper***.

Should you require clarification or further information, we would be happy to provide further consultation.

Yours Sincerely,

**Gary May**  
**Group Business Development and Government Relations Manager**

**8 March 2018**

**Specific responses to questions included in the National Energy Guarantee – Consultation Paper.**

**CSR responses are in bold italics.**

3.2.1 - What are stakeholders' views on whether the compliance year should be a calendar year or a financial year, noting that EITE exemption processes under the RET use calendar years, whereas emissions reporting obligations relate to financial years?

**CSR's preference is for calendar year align to the RET.**

3.2.2 - What are stakeholders' views on the process to calculate a retailer's load.

**This should be based on NMI data with the calculation method to exclude EITE data. The contribution of behind the meter (NMI) Solar PV should be captured on an opt-in basis, particularly large-scale Solar PV (greater than 100 kW systems) since they will already be registered with AEMO and have the metering systems in place.**

3.2.3 - What are stakeholders' views on how a retailer's emissions should be determined?

**Retailers emissions should consider internal behind the meter generation and PPA's entered into to supply the site. e.g. Solar PV on site and PPA with a wind-farm**

3.3.1 – What are stakeholders' views on the methods for determining the emissions to assign to contracts where the generation source is specified?

**The Clean Energy Regulator would be able to access the emissions intensity of the electricity generators. It should be possible therefore to assign intensity to a source however it is likely that contracts would consist of a portfolio of sources and therefore any intensity would need to be an average intensity of all the generators in the portfolio. As portfolios change and contractual parties change, this would need to be updated, leading to increased complexity of contractual arrangements, increased cost in terms of administration and compliance.**

3.3.5 - What are stakeholders' views on how to determine the emissions level to assign to unhedged loads?

**The unhedged load should be based on weighted-average emissions per MWh of uncontracted MWh over a period of time. It should not be based on the emissions of the highest-emitting plant operating in the NEM as this would reduce flexibility in the market and potentially increase the cost of market participants above an efficient market clearing price.**

3.4.1 - Should the emissions requirement allow for unlimited carry-over of overachievement or specify limits on the carry-over of overachievement?

• If limits are to be specified, what should those limits be and how should they be designed? For example, should the size of limits vary inversely with the size of the retailer's load? This could give more flexibility to smaller retailers.

- If limits are to be specified, how should overachievement in excess of the limits be treated? Should there be a process by which it is offered to the market?

***CSR favours some carry-over of overachievement with limits to be specified. CSR suggests limits of 10% of the retailers load with a carry-over life of 2 years. Overachievement in excess of the limit should be offered to the market.***

#### 3.4.2 - What are stakeholders' views on the deferral of compliance?

- Should all retailers be able to carry forward a fixed amount or should it be set proportionally to a retailer's load? This could give more flexibility to smaller retailers than large ones. If so, would any provisions need to be introduced to prevent large retailers re-organising themselves as several smaller retailers in order to gain the benefit of the higher limit?
- If the limit on deferral should be a static percentage of load (rather than varying), what percentage is appropriate? That is, what percentage would provide the necessary flexibility without substantially increasing the risk that the overall emissions reduction target would not be met?

***CSR suggests deferral to next compliance year as it provides flexibility in the portfolio and allows retailers to manage costs. The limit could be 10% of the retailer's load, consistent with carry-over provision. This should be available to all retailers regardless of the size.***

#### 3.4.3 - If offsets are permitted by the Commonwealth Government:

- Should limits on individual retailers' use of offsets be set at an absolute level, regardless of retailer size? An absolute limit would represent a greater proportion of a smaller retailer's emissions than a larger retailer.
- Or, instead, should limits on individual retailers' use of offsets be based on the size of retailers' loads, such that offsets represent the same proportionate share of retailers' emissions regardless of retailer size?
- What are the pros and cons of each of the above approaches?
- If limits on use of offsets are independent of retailer size, how should the risk of large retailers splitting into several smaller entities for the purposes of increasing their overall offset limit be addressed?
- What (if any) requirements to use within-NEM opportunities before using offsets are appropriate?

***CSR supports the use of offsets both from national and international sources to assist in achieving emission reduction at least cost. All offsets should be credible and fungible and able to be banked for a period of up to three years. There should be no limit on the amount of offsets used to meet an obligation however the framework on any linking that may occur for the export of Australian units would need to be carefully crafted to ensure adequate supply to the Australian market.***

#### 3.6.3 - Is there a need for retailers or generators to report contract pricing information as part of the input into the registry?

***No need for retailers to report pricing information***

#### 3.7.1 - What are stakeholder views on how the Guarantee may impact on competitive market?

**CSR has concerns that the NEG could reduce competition and increase electricity cost. Large vertically integrated retailers may have an advantage on meeting the emissions and reliability targets through their generation assets. This could increase the barriers of entry for new retailers that must compete against existing vertically integrated retailers to source their reliability obligation at a competitive price.**

4.2.2 - Stakeholder views are sought on options for setting the emissions targets under the Guarantee.

**CSR's preference if for average emissions intensity over an absolute intensity number.**

4.3.2 - Stakeholder views are sought on issues to be addressed in exempting EITE activities from the emissions requirement of the Guarantee

**Arrangements similar/consistent with the RET exemption process.**

5.6.1 - What are stakeholder views on the types of contracts that should be considered eligible for the purposes of the requirement?

- Do stakeholders consider eligible contracts should be financial, or have a link to physical capacity?
- What do stakeholders think of the approach to certify financial contracts back to a physical asset?
- To what extent does the design choice about eligible contracts influence different types of retailers, and so market structure?
- What are stakeholder views on the proposed approach of determining the generation source in a vertically integrated business?

**The financial contracts including swaps and caps is an important aspect of the electricity market as it provides visibility for short and medium term prices. The reliability obligation should recognise these financial contracts since the seller of these contracts would have a strong incentive to have either control of dispatchable generation or contract to ensure the dispatchable generation is supplying the market to manage the electricity spot price exposure. Current electricity financial derivatives (swaps, caps) should be considered applicable.**

5.7.4 - Should a different level of compliance and/or reporting requirement be required for large energy users who are registered Customers?

- What are stakeholder views on extending the reliability requirement to large energy users that are *not* market customers?
- If the reliability requirement should be extended to large energy users that are not market customers, what would be an appropriate definition of 'large energy user'?

**Large energy users that are not market customers should have the ability to "opt-in" to meet their obligations under the emissions and reliability target. For large energy users the preferred method would be ex-post, relatively simple to supply the metering data. Forecasting consumption would be more difficult for ex-ante given CSR's electricity consumption is linked to production that is dependent on sales and market demand. In the past, this has been found to be more difficult to accurately predict like the weather.**

5.8.1 - What are stakeholder views on an *ex ante* or *ex post* approach to compliance?

- What are stakeholder views on the implications for the assignment of the gap, given an *ex ante* or *ex post* approach?
- What parameters should be taken into account when deciding between these two options?
- Does an *ex post* or *ex ante* approach impact different retailer types?
- Could an *ex post* approach be effectively implemented while retaining a credible procurer of last resort function?

***CSR prefers the ex-post approach since this is based on actual data rather than forecast information. Concerns around sufficient capacity to meet reliability standard can be handled outside the NEG from AEMO's RERT and the review into a Strategic Reserve.***

5.10 - Do stakeholders consider that retailers not meeting the requirement should be charged a penalty or allocated costs or a penalty plus costs?

- Are there other enforcement tools that would be appropriate?

***CSR suggests being allocated the cost rather than a penalty. A penalty charge can artificially set the price of reliability which could be higher than the actual cost to provide the reliability. This will have the effect of increasing cost pressure on the electricity price.***

5.11.4 – What are stakeholder views on the operation of the reliability requirement in the ACT and Tasmania?

***ACT should be considered part of NSW***

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