



**CEMENT INDUSTRY
FEDERATION**



Cement Industry Federation

NATIONAL ENERGY GUARANTEE

Response to the Draft Detailed Design Consultation Paper

13 July 2018



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 Australia's energy markets.

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).

The CIF therefore supports moves to integrate energy and climate policy through the proposed National Energy Guarantee (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. Context and Objectives

Reducing electricity prices and improving affordability is critical for energy intensive trade exposed (EITE) industries such as cement manufacturing. Affordability and reliability are a key competitiveness concerns in the context of the long-term future of our industry in Australia.

As such the cement industry is encouraged that the proposed design of the Guarantee is aimed at lowering prices through several measures, including through:

- providing a measure of certainty by integrating climate and energy policy
- incentivising an increase in the proportion of generation capacity contracted as well as investment in low cost dispatchable resources
- a technology-neutral approach

The CIF is supportive of the overall aims of the Guarantee to maintain reliability of the system and to achieve emissions reductions from the electricity sector – at the lowest overall costs.

The success of the Guarantee will be measured in terms of the provision of a stable electricity market that encourages sufficient investment in capacity and delivers affordable electricity over the medium to long term.

Failure to do so will both directly and indirectly impact on the competitiveness of Australian integrated cement manufacturing in Australia.

3. Emissions Reduction Requirement

The CIF supports the use of an emissions registry to allocate generator output and associated emissions to a market customer's load, as well as proposals to draw on existing reporting obligations already in place under the National Greenhouse and Energy Reporting scheme (NGERs).

Having the Australian Energy Market Operator (AEMO) administer the registry is a logical approach, as is the proposal to implement the registry as an enhancement to an existing system rather than creating a new system (e.g. through another body such as the Australian Energy Regulator).

The proposal to utilise existing data sources wherever possible to capture the required data elements is supported (i.e. through NGERs and AEMO settlement system).

However, the proposal to publish market customer actual average emissions intensity through the registry raises some concerns.

Further information is required around how commercially sensitive information is managed if a competitor or customer is also a market customer. It would not be appropriate for emission intensity data to be published if it would allow the granularity of electricity consumption to be visible at a facility level.

While the CIF understands the complexities around accurately defining corporate groups for the purposes of allocation, it is nevertheless our strong preference that the option to manage the emissions reduction requirements at a corporate group level be retained.

The proposal for market customers to be responsible for meeting the electricity emissions target for over allocated generation raises some concerns – specifically in terms of how market customers may pass on any costs/risks associated with over allocated generation, largely because of circumstances outside of the reasonable control of liable entities.

Consideration should be given to allowing market customers or liable entities to demonstrate mitigation measures before penalties are enacted.

The Consultation paper states that penalties would not be expected to apply in cases of 'small over-allocations', and that 'reasonable steps' to comply would be taken. The CIF would like to see a more information as to what would be considered 'small over-allocations' and what would be deemed 'reasonable steps'.

The CIF supports the inclusion of carry forward and deferral options. Any measures that provide and element of flexibility are welcomed by industry.

The proposal for a 'small market' exemption is supported, as is the proposal to combine the exemption and scaling processes for EITE and small market customer exempt loads into a single process.

The CIF strongly supports the Government's stated position to exempt EITE load for the emissions reduction requirement, which aims to ensure that EITE industries are not commercially disadvantaged under the emissions reduction component of the Guarantee.

However, more information is required around the proposal to publish compliance year-to-date EITE load on an online platform, including who will have access to this information. The publication of commercially sensitive data at the site level must be avoided wherever possible.

4. Reliability Requirement

The ESB identified eight high-level steps to the reliability requirement. Forecasting the requirement, updating the requirement, triggering the requirement, liable entities, qualifying contracts, procurer of last resort, compliance and penalties.

Forecasting and updating the reliability requirement

Forecasting electricity supply and demand will be critical to the successful operation of the Guarantee, particularly in terms of triggering the reliability standard – as well as to the overall success of the NEG in achieving the Government's stated goals.

As such it is imperative that the frameworks that are to be developed to support and improve these forecasts as part of the Guarantee are robust and transparent.

The CIF supports the stated intention of the Guarantee to remain aligned to the Reliability Standard, noting that any change to the Standard have the potential to significantly impact on network investment and therefore need to be carefully considered.

Triggering the requirement

The CIF supports the proposed approach towards attempting to determine if there is likely to be a material gap that would then trigger the reliability requirement. The proposed three-year time frame would likely provide sufficient time for the market to adjust.

However, the reliance on medium term forecasts in terms for this, as well as other aspects of the Guarantee, remains an issue of concern for the CIF. The provision of an accurate and robust forecasting regime is critical to the success of the Guarantee and remains an area of risk.

An alternative approach put forward during the recent ESB consultation period, that would remove the three-year trigger in favour of an ongoing obligation on retailers to identify any potential shortfalls, deserves consideration.

Such an approach has the potential to reduce the reliance on medium-term forecasts and remove an element of complexity from the Guarantee. This would be reliant on the ability of the simplified process to identify potential shortfalls with sufficient notice to address the issue.

Liable entities

The CIF is concerned regarding the proposal for large customers (over 5MW) to be designated as liable entities and therefore required to manage their obligation under the reliability requirement.

While large customers would have the option to have their obligation managed by a retailer on their behalf (i.e. the opt-out pathway) under this approach, it is highly likely that this would place such customers at a disadvantage when negotiating future supply.

The CIF considers that there is merit in proposals for the obligation to start with the retailer, with the option for large users to opt in if they believe they are better placed to manage their obligation and have the capacity to do so (i.e. the opt-in pathway).

Alternatively, the CIF would support increasing the threshold up to 100MW, as has been suggested during the public consultation phase, where it can be determined that the increased threshold would not materially impact on the operation of the Guarantee.

Qualifying contracts

The CIF supports the proposal to grandfather liable large user contracts that were in place before the commencement of the Guarantee.

Where a site has multiple supplies, it is proposed that the reliability obligation will be met by complying contracts for the coincident maximum demand of all connections. The CIF requires more information regarding how 'behind the meter' solutions are to be dealt with when looking at coincident maximum demand of all connections.

The proposal to combine the Market Liquidity Obligation with a trade repository and reporting requirement is supported. Such an approach would provide liable entities with the confidence of being able to access contracts when they need them. This is a key area for our industry that must be addressed.

In terms of demand response, more detailed is required around how liable entities would go about creating a qualifying contract to cover demand side management (DSM) capability. It is not currently clear what a qualifying contract would look like in terms of DSM.

Compliance

Exemption certificates allocated as part of the Renewable Energy Target will need to be taken into consideration when assessing compliance.

There must be a clear methodology and transparency regarding the calculation of the proposed predetermined cost (per MW) to apply where a liable entity is found to be non-compliant.

Penalties

While the reasoning behind the proposed penalties under the Obligation is understood, the CIF is concerned that the \$100m cap may disproportionately impact on market customers who may not themselves be retailers.

The CIF would support alternative enforcement tools based on revenue or some other measure that attempts to address this issue, whilst still incentivising compliance.



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5. The Cement Industry Federation

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.

A copy of the CIF's submission on the Commonwealth Elements paper is attached for information.

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Cement Industry Federation

Submission:

NATIONAL ENERGY GUARANTEE

Draft Detailed Design for Consultation

Commonwealth Elements

6 July 2018





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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

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