



**CEMENT INDUSTRY
FEDERATION**



Cement Industry Federation

Submission:

NATIONAL ENERGY GUARANTEE

Consultation Paper

March 2018



1. Introduction

The CIF welcomes the Energy Security Board's (ESB) open and transparent approach to the development of the National Energy Guarantee (Guarantee) model, recognising that this stage of the consultation is focussed on high-level design aspects with further consultation planned to cover the detailed design of the Guarantee.

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.

The Guarantee, as it has been presented, appears to represent a pragmatic, potentially coordinated approach to climate and energy policy that has the objective of avoiding price shocks and addresses any unintended impacts on Australia's electricity system, whilst striving to achieve Australia's climate change objectives.

The CIF supports the Government's intention to exempt all electricity used to conduct an EITE activity from the emissions requirement under the Guarantee.

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

However, the CIF encourages strong consideration of ways to reduce the regulatory and administrative burden on industry in determining the exemption. This may be achieved through strong alignment with the existing RET system but should also look at options to improve this process wherever possible.

The CIF supports the use of offsets to achieve lowest cost emissions reductions. A strong, sensible framework around establishing the legitimacy of offsets would need to be developed to ensure confidence in their credibility.

All Australian governments must ensure that climate goals, and the programs and measures designed to achieve them, do not adversely impact on the competitiveness of the Australian economy.



2. Setting the Sectoral Emissions Reduction Target

When setting emission reduction target/s under the Guarantee, the focus should not only be on emissions reduction, but also the potential impacts of such action on the national economy and trade exposed Australian manufacturers such as cement producers.

The target/s should therefore:

- be consistent with the Government's broader economic policy objectives towards building a stronger, more productive and diverse economy
- be trade and investment neutral to ensure Australian industry is not exposed to costs its competitors do not face
- be designed in such a way as to ensure all sectors and jurisdictions within the Australian economy play an active role in reducing their emissions profile and
- utilise market-based measures wherever possible.

Aligning the sectoral emissions target under the Guarantee with the national target (26-28% below 2005 levels) in the first instance appears to be the logical choice. Not only does such an approach link the Guarantee to Australia's international commitments, it also provides a level of certainty that is not currently experienced at the state level.

3. Form of Emissions Target Under the Guarantee

The CIF is in strong agreement with the statement that '...setting a target which does not self-adjust in response to changes in demand can result in a pace of transformation that was not intended or planned for.'¹

The RET is a prime example of a policy that has resulted in a distortion of the NEM through the encouragement of a small number of technologies (i.e. wind and solar). This has led to concerns around the stability of the supply of electricity into the NEM, as well as in terms of the impact on electricity prices overall.

The proposed option of expressing the target as electricity emissions targets (a trajectory of annual average emissions per MWh levels) for retailers in the NEM, consistent with Australia's 2030 emissions reduction target for the sector (26-28% over 2005 levels), appears to have merit.

The built in 'self-adjustment' to the level of demand to allow for a smooth transition to lower emissions generation is of interest to CIF members. Any approach that acts to minimise the potential for supply and/or price shocks is welcomed by our industry.

4. Adjusting Electricity Emission Targets

Determining future electricity demand can be a very difficult process, as witnessed by the sharp declines in demand over recent years that were not forecast by the Australian Energy Market Regulator (AEMO).

¹ NEG Draft Design Consultation Paper, Feb 2018 pp 26



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The Government needs to ensure that AEMO is fully resourced to ensure that their future demand projections are as robust as possible. 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 considers that once set, emissions targets should be adjusted as infrequently as possible to reduce uncertainty.

Also, the proposal to use previous variances between forecast and actual demand to inform future targets appears to be a logical approach that should allow for improvement over time.

5. Updating Electricity Emission Targets

The CIF supports the proposal to align the targets under the Guarantee with Australia's post 2030 international targets.

The CIF also strongly supports the requirement for the Government to provide five years' notice before changes can be made to the target trajectory, as proposed in the *National Energy Guarantee Draft Design Consultation Paper* (pg. 27).

Both proposals will promote certainty in the market.

6. Interaction with State Schemes

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.

The current inconsistent approaches to both climate and energy policy across the various jurisdictions create market distortions (e.g. renewable energy targets, natural gas cost and supply issues) and must be addressed.

Individual, state-based action on climate and energy policy, as well as national policies such as the Renewable Energy Target (RET), have contributed to the current state of the national electricity market (NEM).

This has led to an unstable market where prices are increasing, and supply is not always guaranteed. For example, supply disruptions, such as those experienced in South Australia in late 2016 and continuing into 2017, place significant pressure on operations as they strive to meet customer demands for their products.

As a result, CIF members are considering or have already implemented contingency plans in order to protect themselves from market instability. Such plans typically involve a significant and unnecessary cost burden in terms of capital and other requirements, impacting on the long-term competitiveness of our operations.

There are also implications for emissions where fuels such as diesel are required for contingency events.



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

While industry would prefer 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 solving this issue.

7. Exemption for EITE Activities

The CIF strongly endorses the Government's 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 Paris Agreement, on which emissions targets for the Guarantee will depend, does not address issues around 'trade competitiveness' due to differences in the structure, size and scale of countries' emission pledges and the proposed rigour in monitoring and enforcement.

The impact of climate and energy policy must therefore be considered well beyond national level pledges to ensure Australian clinker and cement facilities are not unfairly exposed to competition with international facilities that do not carry similar carbon and/or energy-related costs.

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 appears to be a logical step from a compliance perspective, as well as maintaining the Clean Energy Regulator (CER) as the responsible regulator under the Guarantee.

However, the CIF encourages strong consideration of ways to reduce the regulatory and administrative burden on industry in determining the exemption. This may be achieved through strong alignment with the existing RET system but should also look at options to improve this process wherever possible.

The CIF looks forward to contributing further to the detailed discussion on this issue during the next consultation phase.

8. Use of External Offsets

The CIF supports the use of offsets by retailers to achieve lowest cost emissions reductions, which minimises the costs of climate change policy on manufacturers and the national economy. The use of offsets would act to increase the flexibility of the scheme.



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A strong, yet sensible framework establishing the legitimacy of potential offsets would need to be established and, in the context of this framework, the principle of lowest cost abatement should not be interfered with by placing arbitrary limits on the availability of offsets required to meet emissions targets and compliance obligations.

Once the credibility of an offset has been established, the geographic location as well as the number of offsets used to meet an obligation become less relevant.

9. 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.

10. 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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