

City of Sydney
Town Hall House
456 Kent Street
Sydney NSW 2000

Telephone +61 2 9265 9333
council@cityofsydney.nsw.gov.au

GPO Box 1591 Sydney NSW 2001
cityofsydney.nsw.gov.au

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Dr Kerry Schott
Chair, Energy Security Board
info@esb.org.au

Dear Dr Schott,

City of Sydney submission to the National Energy Guarantee Draft Detailed Design Consultation Paper

This letter outlines the City of Sydney response to the National Energy Guarantee Draft Detailed Design Consultation Paper.

The City of Sydney has endorsed targets to reduce greenhouse gas emissions across the local government area by 70 per cent based on 2006 levels and for 50 per cent renewable electricity by 2030. Our longer term target is net-zero emissions by 2050 in line with the Paris Agreement ratified by the Australian Government.

The City supports the intent of the National Energy Guarantee (NEG) to reduce prices, ensure reliability and reduce emissions from the electricity sector and acknowledges the work conducted by the Energy Security Board (ESB) to develop a framework within a complex environment and limited timeframe.

Delay finalisation of detailed design

A major report by the Australian Competition & Consumer Commission (ACCC) into electricity affordability has been released only three days before submissions are due on the NEG consultation paper.

The ACCC report and immediate political signals will have major implications for the proposed NEG which is cause for the ESB to reconsider its timeframes and recommendations in light of this new information.

It is clearly premature for the ESB to come to any conclusion about the need for or the detailed framework of a NEG until the ACCC report has received adequate public airing and the Government announces which of the 56 recommendations by the ACCC will be supported.

Further, the Australian Energy Market Operator (AEMO) together with Energy Networks Australia has released a consultation paper on how best to transition the current centralised grid to a two-way grid that better integrates distributed energy resources for the benefit of all consumers.

The Integrated System Plan by AEMO is also due for imminent release and will provide direction to facilitate the efficient development and connection of renewable energy zones across the National Electricity Market.

city of villages



Another important work with potential price implications is the 2018 Economic Regulatory Framework Review by the Australian Energy Market Commission (AEMC) also due for release this month.

Rushing through the final detailed design of the NEG now without certainty around these major related studies could have major unintended consequences. The proposed National Energy Guarantee is complex, and risks adversely impacting on energy prices and emissions if not carefully designed and implemented with the acknowledgement of other industry studies and recommendations.

A higher target

While noted that the emissions target proposed for the NEG is the responsibility of the Commonwealth Government, the Energy Security Board has, akin to a fiduciary duty for company directors, a responsibility to disclose the risk to government in setting an ineffective or inadequate target.

As proposed, the target is unlikely to increase the supply of renewable energy – which is essential for improving resilience and meeting Australia’s obligations under the Paris Agreement.

An insufficient target under the NEG will place higher burden on other sectors with significant cost and international competitiveness implications. It is more efficient, timely, fair and cost-effective to establish a higher target for the electricity sector now.

The science of climate change is now able to statistically attribute the contribution of climate change to specific events. In a similar way to the obligation on company boards and directors to disclose climate risk, the ESB cannot ignore the climate risk from decisions ultimately made on the basis of its recommendations.

Additionality

As noted in the consultation paper, there will continue to be increasing penetration of large-scale wind and solar plant driven by state-based renewable schemes and the rapidly declining costs of these technologies.

Given that the proposed 2030 emissions obligation is on track to be already met around a decade early at the time of commencement of the NEG, a higher target is absolutely necessary to align climate and energy policy to provide clear signals for investment.

Recommendations

It is recommended that the Energy Security Board:

- **Delay the final NEG detailed design.** This is essential for the ESB, stakeholders and the general public to sufficiently consider implications of the ACCC Restoring Electricity Affordability recommendations, the AEMO Integrated System Plan and Open Energy Networks consultation proposals, and the AEMC 2018 Economic Regulatory Framework Review.
- **Provide advice to the Australian Government on higher emissions targets.** It is imperative from the outset of the NEG for the Energy Security Board to advise the

Commonwealth to establish significantly higher emissions reduction targets than proposed. A target of 50 per cent reduction by 2030 or sooner is recommended as minimum. A target for complete decarbonisation by around mid-century is necessary.

- **The Energy Security Board must recommend against government underwriting of new coal fired generation.** As outlined by the consultation paper, Australia's aging and less reliable coal plant has been replaced by cheaper renewables and gas-fired power stations. The proposal by the ACCC to consider Government support for new baseload generation could have a material impact on the implementation of the NEG. The future energy supply needs to be dispatchable (rather than baseload) to provide safe and reliable supply to meet demand and the NEG needs to support reliable, low cost, low emissions solutions. New coal simply does not compete on any metric.
- **The NEG must catalyse new predominantly renewable energy supply.** As outlined by the consultation paper, the NEG will provide a clear investment signal, so the cleanest, cheapest and most reliable generation (or demand response) gets built in the right place at the right time. Supporting and accelerating this inevitable transition is the only way for the NEG to meet emissions, price and reliability objectives.
- **State based targets and voluntary schemes must be additional to the NEG.** The role of the NEG is questionable if it relies on state based schemes and voluntary programs like GreenPower for meeting the emissions obligation. Either, NEG targets need to be additional to projects being delivered through other schemes, or the NEG target be lifted accordingly to avoid confusing investments signals. Clear investment signals are essential to ensure that reliable, clean and low price capacity is installed well before the scheduled closure of existing thermal plant.

Should you wish to speak with a Council officer about this submission, please contact Nik Midlam, Manager Carbon Strategy on 9265 9333 or at nmidlam@cityofsydney.nsw.gov.au.

Yours sincerely



Chris Derksema
A/Chief Operating Officer