

To Whom It May Concern:

The undersigned organisations welcome the opportunity to provide a brief submission to the Energy Security Board's consultation on the National Energy Guarantee.

## Introduction

We support the introduction of policy mechanisms that will ensure Australia meets our international emissions reduction commitments, maintains electricity system reliability and drives lowest cost outcomes. However, we have significant concerns about the proposed design of the National Energy Guarantee outlined in the Draft Design Consultation Paper. We are particularly concerned about the emissions guarantee and its ability to meet these key objectives.

Attempts to implement a national policy to drive down carbon pollution in our energy system have haunted Australian politics for two decades. We are concerned that twenty years of battle fatigue may result in the adoption of a policy which is worse than continued inaction. There is a real risk that a policy designed by and for those who dominate our current energy market will not only fail to rapidly clean up our electricity sector with low-cost renewables and storage, but actively lead to more pollution and worse outcomes for consumers and citizens.

With this in mind, we propose three simple outcomes and six tests, which any national energy policy mechanism must meet in order to be considered for adoption by federal, state and territory governments. These six tests do not propose a science-based timeframe for the reduction of carbon pollution in our electricity sector, although this should be required of any responsible government. Rather, **it sets out the lowest possible threshold that any national energy policy must meet in order to be taken seriously as a genuine contribution to a cleaner, fairer, and more affordable electricity supply for all Australians.**

Whatever the acronym - whether it's a Renewable Energy Target (RET), a Clean Energy Target (CET), an Emissions Intensity Scheme (EIS), a carbon pollution reduction scheme (CPRS), a carbon price or most recently the National Electricity Guarantee (NEG) - each of the national policies considered or proposed over the past two decades have aimed to provide a clear price signal or requirement for market actors to favour investment in clean energy over polluting fossil fuels.

Typically the effectiveness or otherwise of these mechanisms lies in their design and the devil is often in the detail. We note that one of these details is that these policies all consist of both a policy *mechanism* and a *target* or *trajectory*; these two features go hand-in-hand, neither is useful without the other. This submission outlines the outcomes any nationwide climate and energy policy mechanism and target must deliver and a set of tests for assessing whether it meets these outcomes.

We also note that one policy mechanism alone cannot deal with the critical issues of energy affordability and a just transition. The tests outlined below if enacted would contribute to increasing energy affordability and action on climate change, however there are many other complimentary actions that governments need to take to

address climate change, modernise our electricity system and ensure a just transition and safe future for all, including those in Australia and globally who are already coping with significant impacts of climate change.

We support a transition to 100 per cent renewable energy by 2030 and achievement of net zero greenhouse pollution well before mid-century. We are striving for a level of climate action and clean energy ambition that is genuinely in line with Australia’s commitment to keep global warming below 1.5-2 degrees. We will continue to work to achieve these stronger outcomes including with state governments and other actors outside the context of the NEG.

## Outcomes

To rapidly drive down pollution and improve reliability and affordability, federal and state governments should only adopt a national mechanism that:

1. Enables the electricity sector to lead the way in cutting climate pollution, consistent with Australia’s Paris commitment to 1.5-2 degrees
2. Speeds up the replacement of polluting coal power with clean energy
3. Distributes the benefits and costs of the policy fairly, without handing windfall gains or more market power to the big energy companies that already dominate the market.

## Tests

The following table sets out a series of tests for judging whether a proposed climate and energy price-signal policy is going to deliver the outcomes outlined above. Any such policy must meet all of these tests to be taken seriously.

Test	How can we tell if it meets the test?
1. Will the construction of clean energy in Australia speed up or slow down as a result of this policy?	<p>In 2017 we built ~4.5GW of renewables (large and small-scale), the most in Australia’s history, any policy must ensure <i>more than</i> 4.5GW of renewables are built each year between now and 2030.</p> <p>Must act as a floor not a ceiling for the deployment of renewables. That is, the policy sets a minimum level of renewables and does not cap or set a maximum level of renewables. Specifically, the policy must build on commitments already made by states and territories.</p>
2. Is the policy capable of being scaled-up to ensure pollution is cut in line with the Paris Climate Agreement of keeping dangerous global	<p>The target and policy mechanism must be easily increased to be brought in line with a 1.5-2 degree carbon budget for Australia. Specifically, it must provide a pathway to net-zero emissions from electricity. All NEM states and territories are committed to economy-</p>

warming under 1.5-2 degrees?	<p>wide net-zero targets by 2050. To deliver on the states' own commitments, any policy must therefore ensure that the electricity sector leads the way in decarbonising our economy.</p> <p>The target and policy mechanism must be able to be easily increased to take advantage of advances in clean energy. It should also be impossible decrease, in order to function effectively as a bankable price signal to investors to favour clean energy over polluting energy.</p> <p>Action by state governments (and local governments and non-state actors) must be additional to a national target, particularly in the context of a weak national target that is inconsistent with Australia's Paris commitments.</p>
3. Will it make everyday Australians pay to keep polluting power stations open for longer?	<p>The policy should not result in any subsidy to the owners of coal and gas plants nor create an incentive to keep coal in the mix longer.</p> <p>The policy should bring on enough renewables, energy efficiency and storage to ensure coal power stations can shut down in a timeframe consistent with Australia's Paris commitments.</p>
4. Will it concentrate market power, or will it enable cleaner competitors to enter the market?	<p>The policy should ensure that the majority of financial benefit associated with the policies flows through to consumers not the big gentailers.</p> <p>The policy should lead to more competition in the retail and generation market. This includes ensuring that small renewable generators are easily able to secure a contract to sell their electricity and small retailers are easily able to meet their obligations to purchase clean power.</p> <p>The public should be able to easily assess whether or not the liable party (retailer or generator) are meeting their obligations.</p>
5. Does the policy lead to emissions reductions in Australia's electricity sector?	<p>The policy should not allow for offsets to replace emissions reduction in the electricity sector. Doing so would slow down the modernisation and decarbonisation of Australia's electricity sector.</p>

6. Is the policy practical and able to be implemented efficiently?

The policy should not create unnecessary burdensome, expensive, complexity when simpler solutions exist.

## How does the NEG stack up?

The Energy Security Board has forecast a level of renewables uptake under the NEG<sup>1</sup> which clearly fails test number one, as it would mean that the construction of clean energy in Australia would slow down rather than speed up under the NEG.<sup>2</sup> This is unacceptable.

The proposed design of the National Emissions Guarantee compared against these tests raise serious concerns. We do not think the proposed design would achieve these reasonable and important real-world outcomes.

Specifically we have the following concerns:

- The complexity, lack of transparency and cost associated with a scheme based on contracts, rather than an independent measure of emissions or zero-carbon electricity generation. This makes it difficult for the NEG to meet *test 4, will it concentrate market power, or will it enable cleaner competitors to enter the market?*, or *test 6, is the policy practical and able to be implemented efficiently?*
- The possible inclusions of offsets fails *test 5. Does the policy lead to emissions reductions in Australia's electricity sector?*. Allowing offsets would slow down the modernisation and decarbonisation of Australia's electricity sector and thus should be excluded from the outset.
- The proposal for existing state-schemes to contribute to an inadequate national emissions reduction target fails *test 2, Is the policy capable of being scaled-up to ensure pollution is cut in line with the Paris Climate Agreement of keeping dangerous global warming under 1.5-2 degrees?* State and territory schemes must be additional to a national target, to ensure that the current inadequate national target does not slow down the deployment of clean energy technologies such as renewable energy, energy efficiency and storage.

In addition we have significant concerns about the proposed exemption of EITES. Since clean energy solutions are now the cheapest new-build options, we do not believe there is a case for excluding EITES from climate policy based on international competitiveness grounds. Large industry actors such as Sun Metals and Whyalla Steel are proving that acting on climate and clean energy is both good for the planet and good for these industries' bottom line.

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<sup>1</sup> Energy Security Board (2017) *Advice*. Accessed at <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Energy%20Security%20Board%20ADVICE....pdf>

<sup>2</sup> See Climate Council (2018) *Clean & Reliable Power: Roadmap to a Renewable Future*, p18 for a discussion of how the ESB forecast for renewables compares to business as usual projections for renewables.

Thank you for the opportunity to comment on the National Energy Guarantee. Should you have any further questions regarding this submission please contact Nicky Ison on [nicky@cpagency.org.au](mailto:nicky@cpagency.org.au), 0402 0345 80.

Sincerely

