

SUBMISSION

NATIONAL ENERGY GUARANTEE – COMMONWEALTH ELEMENTS
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Department of the Environment and Energy
Via email NationalEnergyGuarantee@environment.gov.au

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Introduction

The Energy Users Association of Australia (EUAA) is very pleased to make this short submission to the *National Energy Guarantee Draft Detailed Design Consultation, Commonwealth Elements* consultation paper.

The EUAA is the peak body representing Australian industrial and commercial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over one million Australians and pay annual energy bills in the many billions of dollars.

We have been actively engaging with the Energy Security Board on key design elements of the National Energy Guarantee (NEG) and would like to take this opportunity to commend them on the manner in which they have engaged stakeholders, especially given the complexity of the issues involved and the limited timeframe available.

We are supportive of the NEG as we believe it has the potential to provide a level of stability to the transition of energy markets that is already underway and is set to continue for some years to come. If the architecture of the NEG is coupled with enduring bipartisan support we believe it will create greater investment certainty for all market participants and, over time, put downward pressure on energy prices.

Our comments on the Commonwealth Elements of the NEG will be relatively brief given we have made substantial comments previously on all three questions as part of our submission to the 2017 Federal Climate Change Review, much of which will be repeated in this submission.

Substantive Comments

Setting the Emissions Target

The EUAA are of the view that it is in Australia's best interests to be part of a global climate change solution that minimises overall costs of decarbonisation of its economy and takes advantage of new technological and economic opportunities.

Australia's Paris commitment of a 26% to 28% reduction below 2005 levels by 2030 creates a minimum emissions reduction obligation. The EUAA supports the achievement of this target in a way that is both economically efficient and that drives the necessary changes in the domestic energy market to put downward pressure on consumer energy costs.

Domestically, the transition to a low carbon energy market is already underway and we need to ensure it is both economically and environmentally efficient. Therefore, investment grade policy that endures is a "must have" requirement.

Central to this must be a market-based mechanism that puts a price on carbon. Climate change policies must be clear in their intent, consistent and fair in their application and always seek to minimise the financial impact on consumers while meeting the government's international commitments.

Many of our member companies already price carbon risk into investment decisions and it is clear that those who own, operate and finance energy generation assets are compelled to manage carbon risk, even in the absence of a domestic trading regime or explicit price on emissions.

In our submission to the 2017 Federal Climate Change Review we set out a series of objectives that we believe are important when establishing national emission reduction targets.

Climate Change Policy Objective:

The fundamental objective of a climate change policy should be to limit global greenhouse gas emissions to a level that will avoid catastrophic effects of climate change. Parties to the U.N. Framework Convention on Climate Change (UNFCCC) reached an agreement on December 12, 2015 to limit global temperature increase well below 2 degrees Celsius, while urging efforts to limit the increase to 1.5 degrees.

There is broad international consensus to adopt this as the objective of climate change policies. Australia's policy should adopt this limit as the fundamental objective of its climate change policy in the first instance and should maintain flexibility to make adjustments to match international consensus of this limit as it changes over time.

Clear, Long-term and Binding Targets

In order to meet the objective of limiting global temperature increases to no more than 2°C, it needs to be translated into emissions targets for Australia as a whole. Any targets set should be clear, long-term and binding. Australia's target should be proportionate in the international context. This may not create certainty, however, will create predictability, which is essential for businesses to make long-term investments and minimise costs.

Lowest Cost: Market-Based

The mechanism used to achieve Australia's emissions targets should be market-based. Market-based instruments allow businesses greater flexibility in meeting their objectives and thus lower compliance costs. It is also essential in providing a policy that is technology neutral in order to avoid picking winners and potentially shifting away from the lowest-cost solution.

The market-based mechanism should be equitable, efficient, effective, transparent and flexible so that it may integrate with international schemes. In order to create international linkages, it needs to consider a mutual recognition system of carbon credits. International credits (provided they are high quality and verifiable) should be permitted to achieve Australia's targets in order to provide the lowest cost solution.

Climate change is a global problem that can only be met by a global solution; hence, location of carbon mitigation is irrelevant provided it originates from a highly reliable and reputable source.

Federal Policy Across All Sectors

To minimise cost, maximise abatement and increase investor confidence, Australia's climate change policies should be implemented at the federal level. Federal policy should be broad reaching and include all sectors within the economy while recognising specific issues for energy intensive, trade exposed sectors.

It is in the best interests of energy users, investors and the environment that federal and state jurisdictions to work together to develop effective national policy and in doing so state-based schemes such as emissions trading, energy efficiency or renewable energy targets should be discontinued.

To neutralise issues of sovereign risk, state-based schemes must be phased out in a way that either provides sunset arrangements for existing investments or transitions them into a federal program.

It must be recognised that the transition to a low carbon energy supply that relies heavily on renewable energy will also require natural gas; new demand side technologies and revised market rules to all play a significant role.

In particular, access to reliable low-cost gas will be critical for both low carbon base-load generation and to provide critical energy balancing and system security services such as frequency control and ancillary services. We would encourage policy makers to consider ways in which domestic gas prices can be decoupled from the international price of gas that we are now linked to via our extensive LNG exports.

Bi-partisan Support

With the introduction of a sound national approach to climate change and energy policy, bi-partisan support must be evident in order to provide the long-term certainty required for it to be effective. Without bi-partisan support, businesses will not have the confidence to make the long-term investment decisions required to meet the objective of the policy.

NEG Commonwealth Elements – Setting and Reviewing Electricity Emissions Target

We are in general agreement with the Commonwealth approach to setting and reviewing electricity emissions targets as proposed in the consultation paper. The Federal Government have been very clear that they will meet the emissions reduction target under the Paris commitment and it would appear the electricity sector will play at least it's proportional role in achieving this.

While setting an initial 10-year emissions reduction target is welcomed, as it provides a level of investment certainty, we would see this as playing the role of a target "floor" rather than it being seen as a ceiling on innovation and investment.

We support the principle of a straight-line emissions reduction trajectory to provide a level of certainty to participants. Other trajectories that seek to delay the emissions reduction task risk the non-achievement of our Paris commitment and could result in higher costs by concentrating the purchase of abatement into a smaller, end of period window.

However, we would encourage a level of flexibility to adjust the target trajectory (but not the overall quantum of the target itself) to take into account a material changes in demand. This could be facilitated by the 2025 review proposed in the consultation paper. We would also encourage flexibility over the coming years to align with changes to international consensus and future agreements along with changes in technology and cost.

We observe that many abatement activities tend to come into the market in relatively large blocks rather than in a linear fashion. Therefore, we support the concept of banking and borrowing (also referred to as carry forward or deference in the *Draft Detailed Design Consultation Paper*) being available to liable entities to manage their annual compliance obligations. We support an ability to bank or borrow up to 10% of the electricity emission target per MWh of annual load.

We also support allowing energy consumers to "opt-in" to manage their own environmental compliance under the Emissions Guarantee as they currently do for other state and federal schemes (i.e. RET).

We note that a number of recent reports estimate that renewable energy will make up to 40% of the NEM by 2030, well in excess of current targets and in the absence of any further federal regulatory or policy incentive.

If this is the case then the energy sector is well placed to make a greater contribution to national emissions targets than currently contemplated without additional regulatory or policy impositions and associated cost.

We would also encourage the inclusion of other non-NEM jurisdictions in the Emissions Guarantee to avoid the creation of market barriers and “free riding” by non-scheme participants.

Exemption for EITE activities

In the absence of a global market-based mechanism, in order to avoid carbon leakage (where industries within Australia shut-down only to be re-opened overseas with equal or greater emissions), protection should be provided to Australia’s EITE industries.

The primary objective EITE is to maintain competitive neutrality with trading partners who do not have similar emissions abatement or renewable energy (in the case of RET) activities and where compliance can only be sourced domestically.

Therefore, protection must be provided unless it has been clearly established that EITE industries are competing with trading partners or in economies operating under similar emissions abatement or renewable energy scheme circumstances.

NEG Commonwealth Elements – Exemptions for EITE activities

The existing EITE arrangements as applied to the Renewable Energy Target are well understood by industry and appear to be achieving the objective of neutralizing the impact and cost of domestic policy on international competitiveness of energy intensive industries.

We note the amendments made to the *Renewable Energy (Electricity) Act 2000* on 14 December 2017 to include the addition of an electricity use method for calculating exemptions. While this has added some relatively small costs to compliance it does provide a far more accurate assessment of EITE activities.

We support the continuation of these arrangements in the Emissions Guarantee. We also support the proposal to streamline the RET and Emissions Guarantee to minimize regulatory cost for participants.

The role of offsets

The EUAA believes that a national carbon pricing mechanism should be considered as the foundation of a long-term climate change and energy strategy. In this scenario the application of international permits allows governments to control both the cost of abatement and the level of domestic market development and investment. In this sense, offsets can play an important safety valve role in achieving the optimal balance of managing overall abatement costs and encouraging domestic abatement activities as part of a longer-term transition.

The validation of international permits is critical to both achieving actual emissions reductions and investor/public confidence in emission abatement markets. Over the last 10 years validation methodologies, processes and rules have improved dramatically.

There are a number of internationally recognised validation process adopted by many jurisdictions that focuses on clean energy projects (such as those managed under the CDM and JI programs) and clearly identifiable energy efficiency programs. These have tended to deliver the most reliable and economically bankable permits.

Consideration should be given to the creation of similar standards as a basis for allowable international and domestic offsets in the Australian market. Australia has been a leader in this field over many years and should be

well placed to ensure that only high-quality permits enter the domestic market. They are also well placed to play a key role in continued improvement of measurement and verification of permits in originating jurisdictions.

NEG Commonwealth Elements – Role of Offsets

The EUAA supports the limited use of domestic and international offsets in meeting compliance under the Emissions Guarantee provided:

- The creation, validation and tracking of domestically used offsets meets strict criteria (including an “additionality test” discussed below).
- The creation, validation, tracking and trading of domestically used offsets is highly transparent so as to provide all market participants, including investors in future energy generation technologies, with a clear “line of sight” to volumes and value. This will be critical to ensuring investors can have a sufficient level of confidence in making new investments in generation capacity.
- Consideration should be given to the interaction between energy and non-energy related abatement activities and their role in the NEG. A key aspect of the NEG is to ensure sufficient generation capacity enters the market. The Commonwealth should consider the impact of large quantities of non-energy related offsets (i.e. land use change) crowding out investment in new generation capacity such that the Reliability Guarantee obligations (T-3 and T-1) are triggered.
- We note that the Commonwealth is already considering some limits to the use of offsets in general to meet obligations under the Emissions Guarantee. We would encourage the Commonwealth to consider greater use of offsets than outlined in the consultation paper (currently 5% to 10%) especially for the use of domestic offsets that meet the additionality test as described below. This needs to be balanced against the “crowding out” discussion in the previous point.
- It may be that the significant use of offsets will not be required, especially when you consider the growth projections for renewable energy (40% market share by 2030). However, consideration should be given to lifting the level of offsets to between 15% to 20% with assessment of the appropriateness of this level taking place at the same time as the 2025 target review and subsequent reviews. The aim should be to ensure consumer costs are reasonably minimised while encouraging an appropriate level of domestic abatement.
- Any offsets that are to be used must be sourced from “additional” abatement activities over and above those that have already been incentivised through federal or state programs or from those activities that are occurring anyway. Consideration should be given to developing an “additionality test” to ensure consumers are not paying twice for abatement activities and that only new abatement is drawn into the Emissions Guarantee framework.

Once again, thank you for giving us the opportunity to make this brief submission. We would welcome further discussion if you so desire.



Andrew Richards

CEO

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