

External Submission

Response from Edge Energy Services on the 'National Energy Guarantee – Draft Detailed Design for Consultation – Commonwealth Elements'

06 July 2018



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OVERVIEW

Edge Energy Services (“Edge”) welcomes this opportunity to respond to the elements of the National Energy Guarantee (“NEG”) which relate to the Commonwealth Government.

Edge is a leading consultancy within the energy space and assist with procurement of over 10 terawatt hours each year in the National Electricity Market. Our clients are some of the largest energy users and the largest employers in the country. Edge also works with generation companies entering the market, which increasingly is either renewable or enabling technologies such as batteries.

Overall, Edge is supportive of the NEG and the policy objectives it sets out to achieve. Edge notes the tight timeframe for creating the legislation while acknowledging the market’s need for certainty. However, Edge is concerned that the quality of engagement is being compromised due to the aggressive timeframes. There are still some very important issues to explore and give careful consideration. It is critical that everyone be given the opportunity to understand how the legislation will both indirectly and directly affect them.

SECTION 2 – SETTING AND REVIEWING THE ELECTRICITY EMISSIONS TARGETS UNDER THE GUARANTEE

The Commonwealth Government sought stakeholder’s views on specific questions. For Section 2 (Setting and reviewing the electricity emissions target), the following two questions were asked.

Stakeholder views are sought on:

- *The Government’s proposed approach to setting the initial electricity emissions targets under the Guarantee.*
- *The Government’s proposed approach to amending targets and setting future targets under the Guarantee.*

On the approach to setting the initial emissions target, a longer timeframe will help encourage efficient investment. As such an initial ten-year target is supported, however only if it can find bipartisan support in Federal Parliament. It is important that the rules don’t change once set. If bipartisan support cannot be found a shorter target is encouraged. This could be a five-year target to 2025 followed by an announcement of a second five-year target in 2020, which will run from 2026 to 2030. This would then be followed by additional five-year targets as per the suggested framework set out by the Commonwealth. The shorter timeframe should make it less likely that an incoming government will change the existing targets. It is noted that there still isn’t bipartisan support for the emissions target set at 26 per cent reduction on 2005 levels by 2030. Any progress on bipartisan support on such fundamental issues would be welcome. Much of the benefit of the NEG comes from having a known framework; investment certainty. If critical aspects are changed for political ideology after each election, we see limited benefit to the scheme.

It makes sense to continue to use the forecasting capabilities of AEMO to set the likely consumption. The forecasting performance will need to be independently scrutinised and incentives to get it directionally correct must be put in place. It may be that it is better to outsource the forecasting to a commercial entity to provide the right levels of incentives.

Amendment of targets could occur either annually or during review of future targets. If the overall trajectory is on target there may not be any need to amend the targets at all. If the targets generally create the same amount of over-surrender and under-surrender across the period, there shouldn’t be any need to adjust. Any necessary adjustments are likely to be small and based on change in consumption compared to forecast, or level of exemptions changing. Publication of the actual target (tonnes of carbon dioxide equivalent per megawatt hour) is preferable to setting total emissions for the year which could change due to consumption etc. Investment decisions including contracting typically occur before the details of actual consumption is known and the ability to manage that risk is key to many businesses.

SECTION 3 – IMPLEMENTING THE EXEMPTION FOR EMISSIONS-INTENSIVE TRADE-EXPOSED ACTIVITIES

Section 3 (Implementing the exemption for emissions-intensive trade-exposed activities) explores the options of creating exemptions for the emissions-intensive trade-exposed (EITE) activities. The Commonwealth Government have highlighted the following issue for stakeholder consultation:

Stakeholder views are sought on:

- *Whether the proposed approach to streamline the RET and Guarantee exemption applications minimises any regulatory burden for EITE entities.*

Edge is supportive of efforts to minimise the regulatory burden for all consumers to minimise costs. It is welcomed that only one application and one audit need to be made for exemptions. The largest burden is the timing mis-match between the RET and the emissions targets. If the emissions targets were based on a calendar year basis, the exemption would be more streamlined and be based on the same consumption information. The current proposed arguments for applying the calculation at the node instead of at the transmission node identifier creates additional calculations for consumers. This is arguably not burdensome for many businesses however for consumers with many different sites, it creates additional work. This additional work could be avoided, particularly if there was alignment between the RET and emissions requirement. It is noted that it will not be the Commonwealth Government who will be setting the rules for how the consumption is measured however it is something to be aware of.

SECTION 4 – EXTERNAL OFFSETS

Section 4 (External offsets) explores what off-sets should be made available. The Commonwealth Government is looking for stakeholders' views on:

- *Whether market customers should be able to use offsets to reduce part of their emissions under the Guarantee*
- *The proposed approach to using offsets to be used for compliance under the Guarantee*

The paper comments that the intended outcome of the NEG is to produce a 'clear investment signal for low emissions and reliable generation to get built when and where it is needed, and at the lowest cost'¹. This objective is consistent with allowing for the use of off-sets. Where it is cheaper to off-set carbon pollution elsewhere in the economy or around the globe, this should be encouraged to achieve the objective of reducing carbon emissions while not increasing costs unnecessarily. Carbon pollution is not a local issue and offsets elsewhere should be treated the same as off-sets locally within industry or geographically. It is expected that when other sectors are provided an incentive to reduce carbon emissions they will be able to leverage opportunities in the electricity market to off-set their liabilities. It is understandable that the Commonwealth Government will only accept genuine reductions in carbon pollution as offsets. It is also accepted that each carbon reduction should only be counted once, however with some minor modification in current legislation, this should be achievable.

With the caveat above, offsets should be allowed. Additional generation should not be built only to support the emissions reduction if it is not the least cost option for meeting the reduction. Conversely as more parts of the economy becomes carbon constrained, electricity generation should present an opportunity to provide off-sets.

¹ 'National Energy Guarantee-June 2018 Consultation Paper-Commonwealth Design Elements' page 15.
<http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/National%20Energy%20Guarantee-June%202018%20Consultation%20Paper-Commonwealth%20Design%20Elements.pdf>

Setting caps and targets sub-optimises the process and ultimately introduces additional costs which are inconsistent with the objectives. The reliability obligation should ensure there is sufficient generation available. The emissions target should not be used to achieve this objective.

If a cap on offsets is introduced, it is suggested that it should be a percentage of total emissions and these be set at the same time as the emission targets are set. These should not change as there could be benefits in multi-year deals and changing the caps part way through introduces additional uncertainty.

There may be a political desire to keep much of the cost of a carbon scheme within Australia instead of allowing unlimited overseas offsets. This should be recognised as a political decision which has nothing to do with carbon reduction. If the Commonwealth feels it needs to limit international offsets, there should be a firm cap which is announced at the same time as the emissions targets are set.

FINAL REMARKS

Edge applauds the strides which have been taken towards creating a framework to achieve lower emissions, reliable and affordable electricity. The framework has been created in an impressive amount of time. To future proof the concept, very careful consideration should be given to some of the elements which are still outstanding.

Energy costs have risen to the point where Australia has lost a comparative advantage to other regions including the United States. It is right that Australia contribute to reducing carbon emissions, however this must be done in the most cost-effective way which could include offsetting carbon emissions in other areas of the economy or a geographically different region.

Our final remark is that the framework will only ever be as good as its execution. Energy investment is typically long term which makes a stable policy environment even more important. It is not just the framework which needs to be robust, the obligations and rights will need to be known as far in advance as possible. Edge would like to urge all sides of politics to come together to find a common ground on energy policy to deliver a stable environment. The objectives of the NEG are futile without political alignment. Most alarmingly, launching the NEG within an unaligned political environment increases the risk of bringing forward the retirement of baseload generation prior to new entrants being prepared to come online.

DISCLAIMER

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