

Mr Finn Pratt
Secretary, Department of Environment and Energy
NationalEnergyGuarantee@environment.gov.au

6 July 2018

**Re: Energy Efficiency Council Response to National Emissions Guarantee Draft
Detailed Design for Consultation – Commonwealth Elements**

Dear Mr Pratt

This letter sets out the Energy Efficiency Council's (EEC) view on the '*National Energy Guarantee (NEG) Draft Detailed Design for Consultation – Commonwealth Elements*' (hereafter the 'Consultation Paper').

The EEC recommends that the Commonwealth Government:

- Set a target to reduce electricity sector emissions by significantly more than 26 per cent below 2005 levels by 2030. A stronger target is essential to provide the investment security that is necessary to improve the security and affordability of electricity, and multiple reports suggest that the most cost effective route for Australia to meet its commitments under the *Paris Agreement* involves reducing electricity sector emissions by at least 50 per cent below 2005 levels by 2030; and
- Does not allow the use of international offsets to meet obligations under the NEG, as this would undermine investment certainty in the electricity sector.

The EEC is deeply concerned that the proposed target to reduce total emissions in the electricity sector by 26 per cent of 2005 levels by 2030 will fail to support Australia's commitments under the *Paris Agreement* to reduce total national emissions by 26 to 28 per cent below 2005 levels by 2030.

The CSIRO's 2017 Low Emissions Technology Roadmap found that there are substantial low-cost opportunities to reduce emissions in the electricity sector, including shifting to renewable generation and improving energy efficiency. Many of the opportunities to reduce emissions in other sectors, such as agriculture and transport, are more expensive or disruptive. CSIRO found that the cheapest pathways to meet Australia's international targets involved reducing electricity emissions by 52-70 per cent.¹

ClimateWorks Australia came to a similar conclusion, finding that 63 per cent of the affordable opportunities to reduce emissions in the period 2015-2030 were in energy efficiency and renewable energy (Figure 1). There were further opportunities in the electricity sector, such as fuel switching from coal to gas, which are included under 'Other' segment of Figure 1.

¹ Campey, T., Bruce, S., Yankos, T., Hayward, J., Graham, P., Reedman, L., Brinsmead, T., Deverell, J. (2017) *Low Emissions Technology Roadmap*. CSIRO, Australia. Report No. EP167885

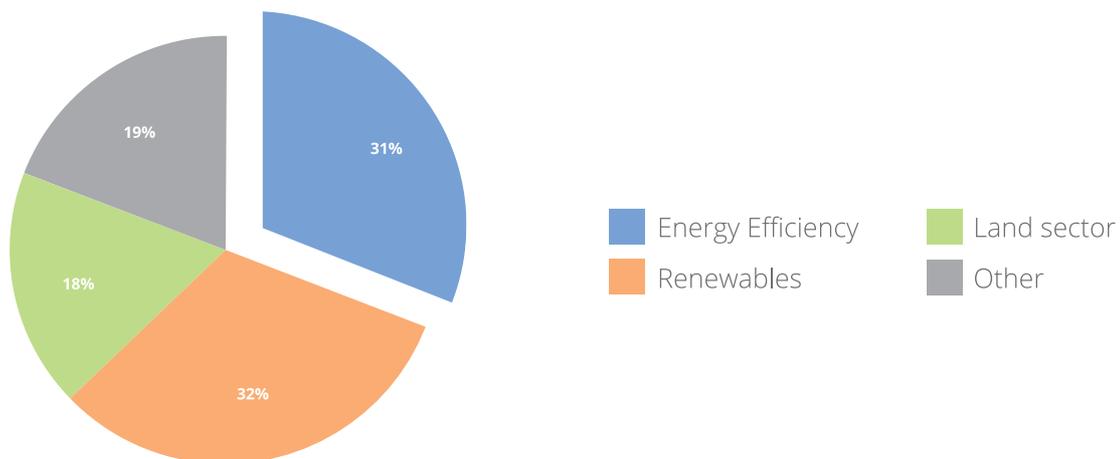


Figure 1. Abatement potential in Australia to 2030

Source: ClimateWorks Australia and WWF 2015, *A prosperous, net zero pollution Australia starts today*.

Therefore, the evidence suggests that, to cost-effectively meet Australia’s commitment under the *Paris Agreement*, the NEG should aim to reduce emissions from the electricity sector by between around 50 and 70 per cent on 2005 levels by 2030.

The NEG target also needs to be more ambitious to support the investment certainty that is necessary to improve the security and affordability of the electricity sector. In addition to being a low cost source of abatement, energy efficiency is the lowest cost form of reliable capacity in the energy sector. Globally, energy efficiency improvements have delivered more reliable capacity than any other form of generation. As a result, the International Energy Agency has termed energy efficiency ‘*The First Fuel*’. Even in the absence of any requirement to reduce emissions, we need to encourage further investment in energy management to improve the reliability and affordability of energy.

A target to reduce total electricity sector emissions by 26 per cent by 2030 is so out-of-line with expected investments that it would undermine investor confidence rather than improving it. Furthermore, the NEG needs to be politically stable to provide policy certainty to investors, which means that any targets need to be set at a level that are credibly in line with Australia’s international emission reduction commitments. If the Commonwealth Government sets an inadequate target to reduce total electricity sector emissions, any incoming government will be forced to change target. In other words, setting the target to reduce emissions in the electricity sector by 26 per cent on 2005 levels by 2030 will undermine the aim of the NEG to improve investment certainty.

Therefore, the EEC recommends that the Commonwealth Government set a target under the NEG for the electricity sector to provide a substantially greater reduction in emissions than a 26 per cent reduction in emissions on 2005 levels by 2030.

Finally, the EEC welcomes the Commonwealth Government's recognition of the issues surrounding the interaction between demand and emissions intensity in determining the total emissions in the energy sector. However, adjusting the emissions intensity target for changes in demand on an annual basis would undermine investment certainty in the energy market. Therefore, we recommend that the Government seek to take account of demand variation in the future review period rather than resetting the target annually to take account of demand variations.

The EEC looks forward to working closely with the Australian Government to develop the NEG and associated energy management measures. I can be contacted directly on 0414 065 556 or via rob.murray-leach@eec.org.au.

Yours sincerely



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