



EnergyAustralia

6 July 2018

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EnergyAustralia's submission on the National Energy Guarantee Draft Detailed Design Commonwealth Elements Paper

EnergyAustralia welcomes the opportunity to make a submission to the National Energy Guarantee, Draft Detailed Design – Commonwealth Elements Paper (the paper).

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.6 million household and business customer accounts in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. EnergyAustralia owns and operates a portfolio of energy generation across Australia, including coal, gas and wind assets with control of over 5,000MW of generation in the National Electricity Market (NEM).

EnergyAustralia is helping to transition Australia to a lower carbon economy. We have completed a \$1.5 billion program to underpin renewable energy across the NEM, taking our total investment to more than \$3 billion and 1000 MW of capacity.

Summary

EnergyAustralia supports the Commonwealth Government's role in setting an emissions reduction target in the context of the National Energy Guarantee (the Guarantee). It is important that Australia takes a national approach to reducing emissions by sourcing the lowest cost abatement opportunities across the country and overseas. Accordingly, the Commonwealth Government should be primarily responsible for setting Australia's emissions reduction goals, given it is the party to the Paris Agreement, which is an agreement between nations.

An enduring emissions reduction mechanism will help the energy industry deliver on all three elements of the energy trilemma – affordability, emissions reduction and reliability. To be enduring, it will require bipartisan and COAG support as well as a transparent and efficient design. With this support, the electricity sector will be able to make efficient long-term investment decisions that ensure customers pay a fair price for electricity. Policy vacuums or uncertainty do not lead to efficient outcomes and ultimately mean customers end up paying more for electricity than they otherwise should.

EnergyAustralia notes that while the form of the emissions reduction target and the delivery mechanism (the Guarantee) may endure across political cycles, the level of emissions reduction ambition is likely to change if there is a change of government. It is important that flexibility is built into the scheme to ensure that elements of the energy

trilemma can continue to balance in the face of stronger targets. Offsets are a key part to providing this flexibility.

We support access to high quality and credible domestic and international offsets as an option to meet electricity sector emission reduction targets. The availability of high quality offsets is consistent with the objective of scheme being low cost and technology agnostic. To flex with potentially changing targets, we suggest that the percentage of allowable offsets should change in line with the emissions target through a multiplier, similar to what occurs through the small-scale renewable scheme.

Setting and reviewing the electricity emissions target

EnergyAustralia broadly supports the approach to setting and reviewing the electricity emissions target. However, we suggest the Commonwealth consider the following enhancements:

- appointing an independent agency (preferably an existing one) to help manage target setting and review periods;
 - the agency could review the target within the first ten years of the scheme and re-set targets with five years notice, if requested by government;
 - the review should true-up behind the meter zero emissions-intensity generation (such as solar PV) and over achievement activities; and
 - the agency could set an indicative target trajectory beyond the first ten years.

Emissions intensive trade exposed entities

EnergyAustralia respects the decision of government to choose to provide Emissions Intensive Trade Exposed Entities (EITE) assistance or otherwise. However, this should be done in full acknowledgement of the impact on remaining customers. EITEs represent around 20 per cent of energy consumed in the NEM. When EITEs are exempt, the cost of meeting their share of emissions reduction is borne by remaining customers, that is households and less trade exposed businesses. We suggest EITE exemptions are reviewed periodically to ensure assistance remains appropriate and commensurate to the risks posed to EITE businesses operating in a dynamic global market. For example, there may be cause to consider a partial exemption depending on changes in the competitive dynamics of a sector.

In the National Energy Guarantee Draft Detailed Design Consultation Paper (Guarantee Draft Detailed Design), the ESB notes the possibility of excluding pre-1997 renewable generation from the emissions obligation. EnergyAustralia agrees that pre-1997 renewables would receive a windfall gain from the emissions obligation without any emissions benefit, and this and should be excluded. A possible solution to this issue is taken from a Frontier report to the AEMC in which it is proposed that emissions allocations that would normally be received by pre-1997 renewables be assigned to EITEs.¹ As EITEs are exempt, this effectively reduces the additional emissions reduction task that retailers take on to account for the EITEs exemption – which will directly reduce the costs of the EITE scheme to non-EITE customers.

Offsets

EnergyAustralia supports the availability of domestic and international offsets under the Guarantee, as they are likely to provide a credible option for low cost abatement. Offsets may also allow the emissions obligation to operate smoothly for the following reasons:

¹ <https://www.aemc.gov.au/sites/default/files/content/bb687e4e-0d76-4476-9b12-ad2cd3ffd1cb/Integration-of-Energy-and-Emissions-Reduction-Policy-Frontier-Economic.pdf> (Page 14)

- the absence of a penalty price in the emissions obligation means the range of prices is unknown – offsets could help manage unexpected price swings and help chart a predictable trading strategy, which will ultimately help participants manage costs on behalf of customers;
- offsets provide an alternative in the event that fuel costs rise and push up the cost of firming renewables, or fuel switching options and in turn, the cost of abatement;
- the Guarantee Draft Detailed Design allows participants to outperform their intensity targets, which would effectively increase the target and increase compliance costs for other scheme participants. In this event, offsets may offer a lower cost alternative;
- offsets help manage costs in the event the NEM emits at a higher rate for unintended reasons, such as:
 - extended drought conditions leading to lower supply of hydroelectricity (as observed in 2007-2009 period); and
 - gas peaking plant having to use diesel due to gas supply shortages to maintain system reliability (as observed last summer).

Offsets need to be considered in tandem with the Guarantee's limits on over and under achievement against the target. The Guarantee Draft Detailed Design currently outlines a 10 per cent allowance for underachievement and five per cent for overachievement. In addition to these measures, offsets should be allowed to increase the options available to deal with high customer costs that may result from tight market conditions.

EnergyAustralia proposes that the percentage of allowable offsets should adjust in relation to the overall emissions reduction target. For example, a multiplier of 0.5 would see a 26 per cent emissions target provide a 13 per cent offset allowance and a 45 per cent target provide a 22.5 per cent offset allowance. It is important that allowable offset limits flex automatically in this way, as the target changes. The risk of a fixed percentage (i.e. such as 10 per cent) is that it becomes more difficult for government to change as it would be a decision of a Minister or requires parliamentary approval, than if it is automatically linked to the target. As suggested in the paper, we agree that individual market participant offset allowances should be proportionate to their retail load.

In the context of offsets, it is important that the government give due regard to what it means to be truly technology agnostic. There are some that would argue that building wind turbines is more virtuous than offsetting emissions through fire management or reforestation, despite both being capable of reducing emissions. EnergyAustralia does not share this view and believes technology neutrality extends to all forms of emission reduction activities, across all geographies. What is important is that methodologies governing these offsetting activities are robust and frequently tested to ensure they stand up to scientific evidence. Given the potential scale and cost to meet the emissions reduction task, all measures to reduce emissions need to be available to keep customer cost impacts manageable. True technology neutrality is what leads to the lowest cost outcomes for customers.

For further information on any issues raised in this submission please contact Kirsten Hall, Policy & Advocacy Lead, on (03) 8628 1185 or at kirsten.hall@energyaustralia.com.au.

Regards



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