

COAG Energy Council Secretariat
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

By email: info@esb.org.au

8 March 2018

Dear Secretariat,

RE: NATIONAL ENERGY GUARANTEE – DRAFT CONSULTATION PAPER

The Green Building Council of Australia (GBCA) appreciates the opportunity to make this submission to the Energy Security Board (ESB) on the draft design of the National Energy Guarantee (NEG). We commend the ESB for delivering a purposeful and detailed consultation document, and for embarking on a genuinely open and consultative process.

The GBCA is Australia's leading authority on sustainable buildings and communities. Since the GBCA was established in 2002, we have encouraged governments to adopt emissions reduction strategies, and have worked closely with industry to drive down emissions. Our sustained education, training and advocacy have led to considerable leadership, improvements and innovation in energy efficiency measures, building retrofits, improved technology and the widespread use of alternative energy sources in Australia's property sector.

The GBCA supports the objectives of the NEG to depoliticise energy policy in Australia and to integrate energy and climate policy. We believe that a well-designed NEG, when complemented by a coherent emissions reductions framework in the broader economy, can deliver on the priorities of energy reliability, affordability and emissions reduction. Whilst the NEG will influence decisions around the kind of new generation that is built, the Commonwealth Government should also consider how demand can be reduced or be adjusted to better match supply. If our electricity system can be changed to more effectively manage demand, it will not only reduce emissions but also reduce the need for investment in new generation assets due to reductions in energy demand.

Australia's built environment holds many cost-effective opportunities for driving the transformation of the energy sector. These opportunities can provide additional baseload generation, reduce demand peaks, build resilience and support longer term security across the National Energy Market. According to the Australian Sustainable Built Environment Council (ASBEC), implementing the appropriate suite of policy measures in the property sector could deliver almost \$20 billion in financial savings by 2030, in addition to productivity benefits and improvements in quality of life for Australian businesses and households. The built environment could also meet over half of the National Energy Productivity Plan Target, and more than one quarter of the national emissions target. We therefore ask that these opportunities are not overlooked as the ESB examines the design of demand response mechanisms (as recommended by the Finkel Review) alongside the development of the NEG.

Please find our response to the questions raised in the consultation paper. The GBCA acknowledges the detailed research undertaken by the ESB in developing a proposed framework for the NEG and looks forward to providing further input regarding the design and implementation of the policy. Should you wish

to discuss any points made in this submission, please contact Sandra Qian, Senior Advisor – Policy and Government Relations at sandra.qian@gbca.org.au.

Yours Sincerely,



Jonathan Cartledge
Head of Public Affairs
Green Building Council of Australia



Established in 2002, the GBCA is Australia's leading authority on sustainable buildings and communities. We are an industry association committed to developing a sustainable property industry in Australia. Our vision is to create healthy, resilient and positive places for people and the natural environment.

To achieve this, we:

- Rate the sustainability of buildings and communities through Australia's only national, voluntary, holistic rating system – Green Star;
- Educate industry and government practitioners and decision makers and promote green building programs, technologies, design practices and operations; and,
- Advocate for the sustainable transformation of the built environment.

The GBCA represents more than 650 individual companies with a collective annual turnover of more than \$40 billion. Our membership reflects the diversity of Australian business, with over 500 small to medium enterprises through to 75 companies with annual turnover of more than \$100 million and 24 companies now listed in the ASX 200, with a combined market capitalisation of more than \$620 billion. Members include major developers, professional services firms, government departments and local councils, banks, superannuation funds, product manufacturers and suppliers.



Launched by the GBCA in 2003, as Australia's only national, voluntary and holistic rating system for sustainable buildings and communities, Green Star is an internationally recognised built environment rating system. The Green Star rating system has been developed by Australian industry and locally adapted to suit the Australian market. From individual buildings to neighbourhoods, precincts and entire communities, Green Star is transforming the way our built environment is designed, constructed and operated.

There are over 1722 Green Star-rated projects across Australia:

- 37% of Australia's CBD office space is Green Star certified
- 6% of the workforce head to a green office each day
- 42,000 people live in Green Star-rated apartments
- 425,000 people are moving into Green Star communities
- 1.3 million people visit a Green Star-rated shopping centre each day

Green Star certified buildings, on average: produce 62% fewer greenhouse gas emissions and use 66% less electricity than the average building; 51% less potable water than minimum industry requirements; and recycle 96% of their construction and demolition waste.



Question: Stakeholder views are sought on options for setting the emissions targets under the Guarantee

Response:

The emissions targets under the NEG should be set at a level that is in line with Australia's long term objective of reaching net zero emissions by 2050, consistent with our commitment under the Paris Agreement. To provide policy certainty for investors, the Commonwealth Government should set an emissions reduction target of net zero emissions by 2050 for the electricity sector, in addition to a broader framework of emissions reduction strategies and targets across the economy. Significant emissions reduction opportunities outside the energy sector – such as those in the property sector - can be unlocked when governments and industry work together to realise their full potential.

Question: Stakeholder views are sought on:

- **Whether, and in what circumstances, electricity emission targets already set should be adjusted.**
- **The process for making any such adjustments to electricity emissions targets.**

Response:

Achieving our national emissions reduction targets requires strong action in the electricity sector, since electricity produces more than a third of Australia's total emissions. The electricity sector also presents enormous potential for unlocking low-emissions solutions in other sectors, such as transport and buildings. While Australia currently has an emissions reduction target of 26 per cent below 2005 levels by 2030, evidence suggests that this target needs to increase over time in order to meet our obligations under the Paris Agreement. Failure to do so will lead to greater obligations on other sectors of the economy.

ClimateWorks Australia, in its report 'Power Up', notes that the technical potential already exists to reduce emissions in the electricity sector by over 60 per cent below 2005 levels by 2030. Assuming targets are set at a level that enables us to credibly meet our international commitments over time, further adjustments to five year targets should not be required and would be undesirable as they would undermine business confidence and certainty of investment decisions. Beyond these shorter-term targets, we believe that the electricity emissions target under the NEG should be adjustable so that it can scale up to meet increased ambition from the electricity sector and changes in technology. Any such adjustments to the electricity emissions target should be cognisant of existing emissions reduction policies in other sectors and be overall consistent with the goal of reaching net zero emissions by 2050.

Question: Stakeholder views are sought on the proposed timing for updating the electricity emissions targets, including a five-year notice period.

Response:

We agree with the proposed timing and process for updating the electricity emissions targets.

Question: Stakeholder views are sought on whether retailers should be allowed to use external offsets to meet a proportion of their emissions requirement. In particular, views are sought on:

- **Whether there is a strong rationale for the use for offsets within the Guarantee**
- **The impact allowing offsets would have on investment under the Guarantee**
- **If offsets were to be used to help achieve compliance with the emissions requirement, what would be an appropriate limit for their use?**

Response:

The GBCA believes there is insufficient detail in the consultation paper to justify the benefits of using offsets as a mechanism to help achieve compliance with the emissions obligations under the NEG. Where other options are available, we believe the use of offsets would undermine the policy's aim to promote behavioural change in Australia's electricity market. We recommend that any further policy development regarding the inclusion of offsets should be subject to detailed consultation with industry.

Question: What are stakeholder views on the interaction between the emissions requirement of the Guarantee and voluntary programs such as GreenPower?

The GBCA believes that voluntary behaviour to reduce emissions should be encouraged and participation in voluntary programs such as GreenPower should be considered additional to the core target under the NEG.

Question: What are stakeholder views on how the Guarantee may impact on competitive market?

Response:

The GBCA shares the concerns canvassed by several other stakeholders that the NEG may entrench the position of the existing large vertically integrated gentailers. Due to their diverse portfolio mix and market share, they are relatively well-positioned to satisfy the multiple objectives of the NEG, and would therefore be in the best position to meet the new obligations. This in turn raises barriers of entry for smaller participants who may be constrained in their ability to enter into complex and long term contractual arrangements and meet the NEG's targets for dispatchable generation. We therefore ask the ESB to consider the protections that will be put in place under the NEG to ensure a level playing field between gentailers and smaller NEM participants. Simplicity and transparency in the NEG's design will also help to support further competition between participants in the NEM and keep downwards pressure on costs for consumers, as well as drive innovation and deliver new products and solutions. A market structure that recognises the difficulties that smaller participants face in executing long term and contractual arrangements would foster innovation in the NEM.

Question: What are stakeholder views on the operation of the emissions requirement in particular jurisdictions?

The consultation paper indicates that the new requirements under the NEG will be embedded into the National Energy Rules and effective by 2020. However, we note that the detailed design of the policy, and the implementation of changes to the current regulatory framework will need the support of state governments as coordinated by the Coalition of Australian Government's Energy Council. Given the existence of overlapping energy and emissions policies in a number of jurisdictions, achieving consensus may be a difficult task. In this context, we believe the ESB's goal to implement NEG by 2020 to be ambitious, though we welcome the certainty and confidence that will be provided through early consensus through COAG.

Governance of the Guarantee

The GBCA believes that any national emissions policy which proposes market solutions requires genuine non-partisan support, in order to provide policy certainty and investor confidence. As such, the governance of the NEG should prioritise depoliticisation of the policy agenda. We support embedding the NEG

into existing governance arrangements for the NEM with oversight from the Energy Security Board and a requirement for the Commonwealth Government to publicly report on progress against this agenda on an annual basis.

Given that affordability is a key driver underpinning the NEG, we believe that the ESB will need to take care that the NEG is not unduly complex or costly to implement. We further seek clarity around the definition of 'large energy users' as referenced in the consultation paper to provide certainty regarding which market participants will be required to respond to the reliability requirement and the emissions requirement.

Lastly, we note that the consultation paper is silent about the intended interaction between the Renewable Energy Target (RET) Scheme and the NEG. We seek further confirmation around whether large scale generation certificates under the RET Scheme will be able to be counted towards meeting the emissions requirement and whether existing generators will be grandfathered under the RET scheme by 2020.