

9th March, 2018

Dr Kerry Schott
Independent Chair
Energy Security Board
By Email: info@esb.org.au

Dear Dr Schott,

RE: National Energy Guarantee Draft Design Consultation Paper

Thank-you for the opportunity to contribute to the design of the National Energy Guarantee (NEG) via this short submission.

Manufacturing Australia (MA) is led by the Chief Executive Officers of Australia's largest, locally-headquartered, manufacturing companies: Adelaide Brighton, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora and Rheem. MA member companies employ around 50,000 people directly, and operate some 300 plants or smaller facilities, predominantly in outer suburban and regional communities, around Australia.

Australia's large enterprise manufacturing sector is predominantly – though not exclusively – energy intensive: a product of more than a century of competitive advantage in affordable and diverse energy supplies. Australia's largest manufacturing industries – steel, glass, cement, fertiliser, aluminium, bricks and other manufactured inputs – rely upon secure and competitively priced energy in order to remain internationally competitive against imports. Energy security and prices are key drivers of investment decisions by both Australian-headquartered and international manufacturers, evidenced in recent years by the multibillion dollar expansions by Australian manufacturers in the USA and other low-energy-cost jurisdictions.

Increased energy security risk, combined with the rapidly increasing costs of grid-sourced power, has dramatically damaged the business case for future manufacturing investment in Australia, while also putting existing businesses and jobs at risk.

Several of MA's member companies have provided submissions responding to the NEG consultation paper and outlining the specific considerations about how it will impact their enterprises. Some of these submissions recommend specific amendments or alternatives to some measures proposed in the consultation paper.

This MA submission does not seek to replicate those or to make further detailed recommendations, but rather to outline the principles that MA believes should be top of mind during the continued consultation and development of the NEG policy.

Manufacturing Australia supports the efforts of the Commonwealth Government and the Energy Security Board to develop a lasting, practical energy policy framework, not just via the NEG but also by the various energy policies that interact with it. In particular, Manufacturing Australia:

- supports the National Energy Guarantee's high level goal of balancing the objectives of energy security, energy affordability and emissions reduction in line with Australia's global commitments;
- supports measures that seek to retain existing or encourage new, reliable, generation that can be dispatched at times when intermittent renewable generation is unavailable;
- recognises that the NEG seeks to provide greater clarity on how government policy settings will impact supply and demand-side energy investors over an extended period of time;
- supports efforts to achieve the above objectives at least cost, on a technology-neutral basis and with minimal cost pass-through to customers. This is essential if Australia is to regain international competitiveness in energy intensive industries.

There are four key aspects of the NEG design about which MA seeks the opportunity for further input:

Competition and market power:

- The Energy Security Board (ESB) rightly identifies the risk that the NEG could unintentionally further entrench market power and create barriers to entry for small players. Such an outcome would be unacceptable to commercial and industrial energy customers.
- Deeper understanding of how the NEG will impact competition and market power in the National Electricity Market (NEM), and how to avoid any lessening of competition, is essential to its successful design.
- The NEG should not allow any opportunity for “double dipping” or windfall gains by existing generators that already provide reliability when they dispatch, in the absence of investment that would extend the life of an existing generator.
- MA encourages further work to outline how the NEG design can avoid further entrenching market power, both through its own preferred design and through complementary measures via the ACCC and AER.

Complexity and smeared cost:

- The NEG is a complex mechanism that could increase risk and costs to implement and administer, which will be passed on to customers. This occurred a decade ago when network-induced supply issues led to a “gold plated” network solution, the cost of which is now smeared across all energy customers.
- Further, this complexity is likely to be more onerous on smaller retailers and large users than it will be on large, vertically integrated, retailers. This could worsen the market power and barriers to entry concerns outlined above.
- MA recommends a cost/benefit approach to determine what level of reliability is willing to be paid for and how that reliability can be delivered at absolute lowest cost to customers.

Treatment of EITE activities

- MA strongly supports the Commonwealth Government’s view that electricity used to carry out emissions intensive, trade exposed (EITE) activities should be exempt from emissions requirements under the NEG, consistent with current exemptions under the RET.
- Further, EITE exemptions should apply to the reliability requirements under the NEG. EITEs are typically “baseload” energy users with flat load profiles. This form of load should not be penalised under the reliability obligation in the NEG.

Treatment of existing contracts:

- Change of law clauses in Electricity Supply Agreements are complex, particularly when seeking to prove changes in costs and underlying causes of these changes. As such, the treatment of existing contracts is an important consideration of the NEG design.
- Grandfathering or exempting existing arrangements should be considered in the NEG design. In cases where commercial and industrial customers have entered into power purchase agreements (PPA’s) these may be for periods up to 10 years and beyond.
- In examples where commercial and industrial customers have significantly lowered their emissions intensity via internal “behind the meter” generation or renewables PPAs, some mechanism should exist in the NEG to recognise and reward these initiatives, and ensure customers are not penalised or required to pay twice for emissions reduction.

Should you wish to discuss any part of the following submission, please don’t hesitate to contact me.

Yours sincerely,



Ben Eade
Executive Director
Manufacturing Australia