

March 13 2018

Consultation on the design of the National Energy Guarantee

Energy Security Board

Department of the Environment and Energy

GPO Box 787

CANBERRA ACT 2601

Via email [info@esb.org.au]

**Mars Australia submission to the 2018 Energy Security Board National Energy Guarantee -
Consultation Paper**

Dear ESB Members,

Mars is a family-owned business with more than a century of history making diverse products and offering services for people and the pets people love. In Australia, Mars has manufacturing sites in regional locations including Wodonga, Bathurst and Wacol (Petcare), Ballarat and Asquith (Confectionary), and Wyong (Food), producing market leading brands such as PEDIGREE®, WHISKAS®, MARS™, M&M'S®, DOLMIO® and MASTERFOODS®.

Mars Australia, as one of the regions' leading food producing and exporting companies and a large employers of regional Australians, welcomes the opportunity to comment on the high-level design of the National Energy Guarantee in accordance with the Consultation Paper released on February 15th.

The extensively covered electricity price crisis in Australia has had a significant impact on cost volatility for Mars Australia, impacting all our sites and introducing substantial uncertainty. We are in the "large retail" energy market and electricity costs are a major concern for us continuing into 2018. In addition, Mars businesses globally have a commitment to environmental sustainability, and in Australia we are living this principle through a range of initiatives that reduce waste and reduce our reliance on the grid. Our major energy project in the sustainability space is the Renewable Energy Project, a national initiative that will mean all Mars Australia operations are drawing electricity from 100% renewable sources by 2020.

Incentive structures should support market-led moves to renewable generation

Consistent with our global commitment, Mars Australia's deep corporate commitment to principles of sustainability includes taking strong action on climate change such as our proactive approach to sourcing

renewable energy through the abovementioned project. We applaud the integration of an emissions guarantee into the NEG, uniting energy security and emissions reduction policy for the first time. However, in line with our support for a greater role for clean generation, we urge the ESB to ensure that the resulting incentive structure does not inadvertently discourage uptake of renewables beyond the requirement of the emissions guarantee. Market-led decisions to invest in renewables should be supported alongside the baseline requirements of the NEG.

Effects on competition

The Paper notes that if emissions-intensive trade exposed (EITE) firms are exempt from the emissions requirement under the NEG, the burden for emissions reductions to achieve the requisite economy-wide 26% reduction will fall on other firms. We encourage the ESB to ensure that the NEG does not distort competition between firms by imposing higher requirements for some actors than others unless there is a compelling evidence-based reason for doing so.

Noting that energy industry bodies have voiced concern that the NEG might entrench the market power of large energy companies to the detriment of new entrants, we would encourage a greater discussion of how the NEG in practice supports competition in this and future consultations. Supporting diversity in the energy sector will strengthen incentives for companies to be innovative and efficient, generating greater benefits for consumers in terms of price and security.

Absolute versus proportional reduction targets

Noting that Australia's commitment under the Paris Agreement is phrased as absolute reductions (26-28% fewer MtCO₂-e in 2030 than was emitted in 2005), expressing the emissions targets as a per MWh rate instead of a net quantity reduction could mean having to adjust the targets in future if demand is substantially off from what is forecast by AEMO. While the ESB notes the necessity of adjusting the rate as time goes by, in a scenario where electricity demand is stronger than forecast causing more electricity to be generated to feed demand, absolute emissions could be higher than forecast. This would mean the emissions target for the next period would have to be adjusted upwards to keep Australia on track to meet the Paris commitment. Given the need for a modicum of predictability over future requirements, we encourage the ESB to consider the future potential for higher emissions targets after periods of surging electricity demand. This could include measures such as modelling that gives advanced warning to retailers and generators in the event of demand that varies substantially from what is expected.

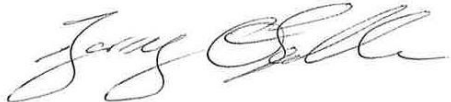
Consistency of policy direction

We support the NEG's establishment as an enduring mechanism with no fixed end date, with targets able to be amended through a process of regular reviews. This aids long term business planning and strategic positioning, as the policy landscape over long term projections is likely to be more predictable. A key feature of Australia's climate policy over the past decade has been its constitution of a series of short-lived programs; this policy instability has repeatedly been cited elsewhere as a contributing factor to our

current energy reliability issue. It is our hope that the final form of this policy achieves bipartisan support for the structure of the NEG, given that it allows some flexibility in the future setting of requirements.

Mars Australia has sought to add its voice to those of other Australian manufacturing businesses to help the ESB better understand our experience and the views of Australian business regarding energy generation reliability, price and emissions reduction. Thank you for considering this submission.

Kind Regards,

A handwritten signature in black ink, appearing to read 'Barry O'Sullivan', written in a cursive style.

Barry O'Sullivan
General Manager, Mars Petcare Australia
On behalf of Mars Australia