



6 July 2018

James White
Assistant Secretary
Clean Energy Branch
Department of the Environment & Energy

Submitted by email: NationalEnergyGuarantee@environment.gov.au

Dear Mr White,

National Energy Guarantee Draft Detailed Design for Consultation – Commonwealth Elements

Origin Energy Limited (Origin) welcomes the opportunity to make a submission to the National Energy Guarantee (NEG) draft detailed design for consultation – Commonwealth elements.

Origin supports the objectives of the NEG to bring together energy and climate change policy and provide a clear investment signal for low emissions and reliable generation sources at least cost to Australian homes and businesses. With investment under the RET now largely met, policy direction beyond 2020 is critical to driving further investment, maintaining reliability and putting downward pressure on prices.

Origin supports the international target to limit global warming to no more than 2°C and notes the strong intention of the Paris Agreement to pursue efforts to a 1.5°C scenario. We support Australia's announced 2030 target as a minimum goal for the nation and believe that greater ambition is possible over time. The electricity sector can do more than its pro rata share of the target as it has cost effective abatement options available to it which could be unlocked given the right policy settings.

This submission focus on the following key points:

- **Targets** – we support more ambitious targets for the NEG emissions reduction obligation as well as longer term guidance on potential pathways for the sector.
- **Offsets** – we do not support the use of offsets in the context of the current relatively modest emissions reduction targets.
- **Trade exposed industry assistance** – Origin suggests that a partial assistance regime, as was previously used in the Renewable Energy Target, should be implemented in the NEG.

Targets

Origin has consistently advocated for more ambitious targets for the electricity sector. We support the Paris Agreement on climate change and support Australia's 2030 emission reduction target as a starting point with greater ambition expected over time, consistent with the framework of the Agreement. We believe that the electricity sector can be responsible for more than its proportionate share of any national carbon reduction measure because it has viable options at scale to reduce emissions and can help

unlock abatement in other sectors of the economy. Further, we believe an analysis of what abatement is expected of each sector of the economy is required, as has been recommended under the 2017 Review of Climate Change Policies.

Origin has committed to halving our own emissions by 2032, and is the first Australian company to have our targets approved by the International Science Based Targets initiative.

In the context of the NEG, Origin provides the following more specific comment:

- Emissions target – we support a more ambitious emissions reduction target for 2030 than has so far been proposed which places the electricity sector on a clear pathway to a net zero emission target by 2050 or earlier.
- Emissions budget – we support the concept of an emissions budget as stated in the consultation paper and seek further detail on the shape of that target over the 2021-30 period. We suggest that the starting point should be a linear reduction from 2021 to the stated target in 2030.
- Guidance on longer-term emissions pathways – we believe that it would aid investment in the sector for guidance on pathways beyond 2030 to be provided. There is a significant stock of older plant that are expected to retire in the period 2025-35 and this needs to be planned for.
- Notice period for changes – as stated in our previous submission, we believe that the notice period for changes to targets should be 2-3 years, not 5. For example, this would mean that if an adjustment was made in say 2023, it could be included in targets from 2025 onwards.
- Process for changing targets over time – we understand that the NEG emissions reduction target is to be calibrated with the overall review and refine process under the Paris Agreement. Therefore, such a review should occur earlier than 2025, as expected under the terms of the Agreement.

Offsets

We support flexibility options to manage requirements between years through the use of banking and borrowing provisions but we do not support the use of offsets in the NEG. We are concerned that the use of offsets from other sectors may undermine signals to invest in new low emissions and reliable generation.

If more ambitious targets were to be implemented at a later stage, we would suggest that the use of offsets could be revisited, in combination with other flexibility options. This could be achieved by allowing for the potential use of high quality offsets in the scheme legislative framework from commencement but setting the operational limit at zero initially. This number could then be changed at the same time that overall scheme targets were changed.

Assistance for trade exposed industry

We support the principle of providing assistance to emissions-intensive trade exposed (EITE) industry. However, this should be done in a fair way. Assistance under the RET overcompensates some entities and under compensates others. Such assistance must also be balanced against the increased costs that are placed on other customers including households and small business.

The size of potential EITE load is significant at over 20% of total NEM load. If this was fully exempted, it would place increased costs on all other consumers by the same proportion. We suggest that the current proposal to apply the RET assistance arrangements to the NEG is unbalanced, and unfairly provides assistance for a small range of industries at the expense of households and other businesses. We recommend that a partial assistance regime be revisited (as originally existed under the RET) which could be tailored to better fit the NEG and result in a more equitable distribution of costs across consumers. The partial assistance regime provided assistance in two headline categories – 90% for those

activities which qualified as highly emissions intensive and 60% for those in the moderate category. The effective level of assistance received by a particular site depended on how it compared against a historical industry wide benchmark. Such a scheme could be considered not only fairer as it imposes less cost on other households and business but also as more efficient as it sends a stronger signal to abate emissions to those trade exposed businesses which do receive assistance.

If you wish to discuss any aspect of this submission further, please contact Matthew Kaspura at matthew.kaspura@originenergy.com.au or on 02 9503 5178.

Yours sincerely,



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