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To: info@esb.org.au

Dear Sir, Ms

**SUBMISSION FROM PEABODY AUSTRALIA TO THE ENERGY SECURITY BOARD -
NATIONAL ENERGY GUARANTEE DRAFT DESIGN CONSULTATION PAPER.**

Thank you for the opportunity to provide comment on the National Energy Guarantee Draft Design Consultation Paper (Guarantee).

Peabody Energy Australia (Peabody Australia) is a subsidiary of Peabody Energy (Peabody). Peabody has been active since 1883 and has, through its subsidiaries, majority interests in 26 coal operations located throughout major U.S. coal-producing regions and in Australia. Peabody has metallurgical and thermal coal customers in more than 25 countries on six continents.

Peabody's Australian operations are located across Queensland and New South Wales (NSW), and include a diverse product range of coal through multiple coal ports. In 2016, Peabody's Australian operations achieved total sales of 33.5 million tons primarily to steel producers in Japan, Europe, Taiwan, Korea, India and South America, as well as to electricity generators in Australia and Asia. Peabody Australia is also a large consumer of electricity to power our underground and open cut mining operations.

Our submission focuses on our Australian operations and, in particular, how the Guarantee impacts us as an Australian electricity consumer as we rely on affordable energy.

As a member company of the Minerals Council of Australia (MCA), we have also had input in the preparation of the submission by the MCA. We support the MCA submission.

Our support

Peabody Australia supports a clear energy policy for Australia whereby the Commonwealth and State Governments work together to deliver affordable, reliable energy that meets Australia's emissions objectives. Peabody Australia, like the MCA, wants the Guarantee to work to deliver lower costs for Australian energy consumers, while achieving system reliability and emissions obligations. We are pleased that the Guarantee involves a balanced approach to energy sources and does not favour certain technologies over others.

To this end, Peabody Australia has reviewed the Consultation Paper and identified the following areas of risk that require more work in order to achieve the Guarantee's objectives:

1. Affordability

Peabody Australia, like other energy consumers, has seen significant increases in our power costs over recent years. Our country must have lower energy pricing to support Australian households and to ensure that Australian manufacturing and production industries can compete competitively and continue to provide jobs for Australians. The current electricity pricing is not sustainable for domestic or industrial consumers.

The minerals sector consumes more than 11% of Australia's power. Increases in our input costs, including electricity pricing, are not simply passed onto our consumers. We must compete with international competitors.

We are concerned to ensure that the ESB, when designing the specifics of the NEG, focusses on *reducing* electricity pricing in Australia, rather than simply seeking a reduced rate of price increase. This is critical to ensure that the manufacturing, resources and industrial sectors continue to contribute to the Australian economy and continues to offer employment opportunities for Australians.

To this end, the NEG must adopt measures that will remove cost rather than simply adding additional cost to what is already an unsustainable cost base.

2. Market behaviours/distortions

There appears to be considerable risk in the operation of the Guarantee and achieving affordable and reliable energy given that "gentailers" have a role as both retailers and generators. The Guarantee must have appropriate checks and balances as well as appropriate consequences (see Para 3 below) if there is any market behaviour that distorts the Guarantee's pricing and reliability objectives. The electricity market is not a simple market to understand. Domestic consumers must have absolute confidence that the market is working as designed to achieve competitiveness and lower energy costs.

3. Consequences of failing to comply

The Guarantee contemplates various penalties to ensure compliance. We see risk if retailers can simply pass onto their consumers, any penalties if they fail to meet their compliance obligations. Appropriate consequences must flow to retailers.

4. Change of government risk

We are supportive of the Guarantee being designed to encourage longer term investment certainty. The Guarantee must give business the confidence to invest in medium to long term. While the NEG proposes a 10 year emissions change notice period, we query if this should be lengthened. The Guarantee is designed as technology neutral. It is important that all aspects of the Guarantee support this. For example the approvals process facing a project for new gas or coal fired generation is lengthier than for many renewable projects. A 10+ year runway may allow for better investment certainty.


5. State government programs

The Guarantee does not prevent state governments from pursuing their own energy and emissions policies, potentially to the detriment of the effective functioning of the Guarantee framework. This is an example of where affordability could be jeopardised through a continued State Government incentive package to favour one source of energy over others (eg continued State subsidies or power purchase agreements that can underwrite investment). This policy overlap and its potential consequences on the functioning of the NEG, needs to be acknowledged as a risk by the Energy Security Board and addressed by COAG. We support a unified policy framework agreed by the Federal and State Governments.

We thank the Energy Security Board for its leadership in designing the Guarantee. It is a critical policy for the economic future of our nation and we ask that the Board consider our comments carefully.

If you would like to further discuss any part of our submission, we would be happy to assist. We also look forward to further opportunities for public consultation as the Guarantee is developed.

Yours sincerely



Janette Hewson
VP Government Relations
Peabody Australia

