

# QCOSS Submission – National Energy Guarantee (NEG) Draft Detailed Design for Consultation - Commonwealth Elements

## About Us

The Queensland Council of Social Service (QCOSS) is Queensland's leading force for social change, working to eliminate poverty and disadvantage. We represent the interests of people on low-incomes and those experiencing poverty and disadvantage, and are the peak body in Queensland for the community services sector. With more than 600 members, QCOSS undertakes informed advocacy and supports a strong community service sector in Queensland. QCOSS focuses on providing effective policy advice, working to strengthen responsive community services and having productive partnerships with government, private sector and the community sector. This work is done with a Queensland free of poverty and disadvantage front of mind.

QCOSS has a strong interest in developments in the electricity sector because, unlike many other regulated industries, electricity is an essential service that households rely on every day. It is essential for lighting, hot water, food preparation, washing and cleaning, communications, and heating and cooling. Having access to these things in the home in turn supports people to participate in employment, education and social interaction. QCOSS therefore considers it is critical that electricity is affordable and accessible to all Queenslanders.

## Key Messages

QCOSS thanks the Commonwealth Government for the opportunity to provide a submission to the *National Energy Guarantee Draft Detailed Design for Consultation - Commonwealth Elements*. This is an important consultation, as it significantly impacts on the emissions and consumer price outcomes of the National Energy Guarantee (NEG).

Australia has had ample opportunity to address both affordability and climate issues, but has been held back by inaction at the Federal level. Continuing uncertainty in key energy policies has led to underinvestment in clean technologies. We consider the NEG to be the least favoured option compared to both the Clean Energy Target (CET) as proposed by Finkel, or an Emissions Intensity Scheme (EIS).

While we agree that that policy certainty is needed to maintain investment in an energy transition, the policy must be robust, realistic and fair. Our key messages are:

- Climate change is a social justice and equity issue that urgently needs to be addressed.
- The energy transition is already occurring. It needs to be a fast and fair transition.
- QCOSS strongly supports economy wide reductions in green house gas emissions.
- The features of the NEG as proposed will not lead to the green house gas emission reduction needed.
- Locking in an initial 10-year target lacks the flexibility needed. Five-year rolling targets will be more effective.
- The government must ensure that low-income and disadvantage households are not left behind or pay disproportionately more for the transition.
- The electricity sector can more easily and cheaply reduce emissions and should do the heavy lifting with more ambitious emission reduction targets than other sectors.
- State based emission reduction and renewable energy targets should be additional.
- We strongly oppose exemptions for Emissions Intensive Trade Exposed (EITE) activities, as this will only raise prices for all consumers through a cross subsidy. It will be low income and vulnerable consumers disproportionately carrying the burden.
- We do not support the use of offsets for the electricity sector, as this will unfairly increase costs to consumers in other sectors, and reduce investment in renewable energy (an aim of the NEG).

## Emissions Target

Of concern is that the emissions target of 26% on 2005 levels by 2030 is too low to achieve the Paris Agreement target<sup>1</sup>, and will not be achieving its purpose beyond business as usual. Having targets set too low in the near-term will lock in old technologies and this will lead to higher costs when we progress to more stringent scientifically based targets and may leave us with stranded assets. Both the mechanisms and objectives for target setting needs to acknowledge such outcomes and in QCOSS view this supports a clear position that now is the time to be setting targets and framework for achieving a net zero economy

The Paris target is for the whole economy, not just the electricity sector. Different sectors have differentiated capacity and costs of carbon abatement. As such, targets should not be pro-rata between sectors. The current target (and the EITE exemptions and use of offsets) prevent the electricity sector from contributing efficiently to national targets. Not all sectors have the same capacity to contribute equally to the national target. Reputex, for example, are suggesting the NEG could double the costs of abatement for other sectors, which will pass through to consumers in those sectors<sup>2</sup>.

Our position is that the energy sector can and should do heavy lifting, as it already has affordable technology options and pathways available that other sectors do not, while not adversely affecting vulnerable communities and individuals. Spreading the national target equally across all sectors will place unfair and unnecessary burden on other sectors, leading to other cost burdens for essential services such as food and transport, as emission reductions are more onerous and expensive in those sectors.

We have serious concerns that the 10-year initial target setting is inadequate. We understand the need for certainty, and therefore support a more flexible 5-yearly rolling target to allow flexibility to changing policy circumstances, give industry 5 years to plan and guarantee such targets going forward. The target should be a floor, not a ceiling (i.e. they cannot be reduced in later years).

We thank the Government for maintaining that Government Accredited GeenPower remains additional. This is one way consumers can engage in the transition. This right should not be removed. In the same vein, however, state based emission reduction and renewable energy targets must be additional to NEG targets. Earlier modelling on the role of state based targets without the NEG underestimated the contribution state based targets will make to new generation under business as usual<sup>3</sup>. States without such targets should not be able to leverage the work of states that do.

## Emissions Intensive Trade Exposed Activities

We do not support exemptions for EITE activities, as this is effectively a consumer paid cross subsidy for those industries. Smearing the costs across all bills has a disproportionate impact on those consumers who already are struggling to pay their electricity bills. These often are the most vulnerable in our community and may face certain barriers to managing their energy use and reducing their bills. This is counter-intuitive to the aims of the NEG which is to bring about sustainable electricity price reductions for all customers. The NEG is failing in its aim of cost reduction if exemptions are still needed for EITE activities and indeed including them in the guarantee would help ensure that the NEG can achieve its aims of price reduction.

We understand that the rationale for providing exemptions to EITE activities is to support their ability to compete overseas. This is a policy that should be reviewed on a periodic basis including an assessment on whether or not it is in the public's best interest? This should also include its impact on electricity prices. We are not aware of any recent and relevant analysis to investigate the ongoing need for exemptions for EITE activities on this basis. Therefore we support ACOSS in its calls for modelling to be completed which would provide more transparency on this issue.

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<sup>1</sup> <http://www.tai.org.au/content/meeting-our-paris-commitment> (accessed July 4th, 2018)

<sup>2</sup> <https://www.reputex.com/research-insights/carbon-price-may-double-to-35t-in-2030-for-industrial-sectors/> (Accessed July 4th, 2018)

<sup>3</sup> <https://www.reputex.com/research-insights/modelling-the-interaction-between-the-neg-and-state-ret-schemes/> (Accessed July 5th, 2018)

## Offsets

We do not support the use of external offsets to achieve the current proposed target in the NEG (unless target were significantly higher). In the longer term offsets are likely to become more expensive as demand for them increases and may actually reduce investment in renewable energy (this would be counter to the aims of the NEG). Reducing investment will lead to higher wholesale prices in the long term. Arguably as already set out in the ACOSS submission to the Government Consultation Paper to the NEG the case for including offsets in the NEG is weaker as *“while a case can be made for the use of quality offsets in some other sectors where low/zero emissions technology is still costly or unavailable, the electricity sector has affordable (wind and solar with firming capacity is now cheaper than new build coal or gas) and deployable technology”*.

Furthermore, we suggest not using international offsets, as again this would reduce domestic investment.

## Protection for Low income and vulnerable consumers

Low income and vulnerable households are already paying a greater proportion of their income on energy, and they have paid disproportionately more for government policies such as Solar Bonus Schemes as the costs are smeared across all bills. For new policies such as the NEG, where there is some risk of higher prices (for example due to increased compliance and regulatory costs) it will be important to ensure that there are fair mechanisms for cost pass through, such as governments carrying the cost through consolidated revenue (as Queensland currently does for its Solar Bonus Scheme feed-in tariff), and mechanisms to counter disproportionate costs to people on low incomes and customers experiencing disadvantage.

Regardless of the outcomes of the NEG design and implementation, QCOSS remains concerned that many vulnerable households will continue to struggle to pay their electricity bills. Energy is an essential service and there is still a need for targeted measures to address lack of affordability and/or complexity of the retail market. These include a review of concessions and rebates for low income and vulnerable energy consumers and in particular a percentage based rebate. They should also include measures to ensure that barriers for energy affordability for low income households and especially renters are reduced. These include addressing split incentives for the uptake of technologies to promote energy efficiency and ensuring minimum standards.

QCOSS acknowledges the work of the Australian Energy Regulator and the Australian Energy Market Commission since August 2017 in improving transparency, reducing complexity and currently working to strengthen the protections for people experiencing financial hardship. We also note that we are awaiting the outcomes of the ACCC Retail Price Inquiry that may recommend support for low income and vulnerable consumers. However, many vulnerable households are excluded or marginalised from the energy market due to its complexity and are not getting the benefits of retail competition. We recognize that many low income and vulnerable customers are often difficult to reach and engage with through mainstream channels. Based on our experience, we have found that one of the most effective mechanisms to reach low-income and vulnerable customers is via the community organisations they come into contact with on a day-to-day basis. These organisations have a strong reputation and trust within their local communities, and their staff have specific expertise in engaging and assisting people on a range of issues, including the cost of living. This remains a critical activity to support positive outcomes for these consumers as the market continues to increase in complexity.