

8 March 2018

Dr Kerry Schott  
Energy Security Board  
COAG Energy Council Secretariat  
Department of the Environment and Energy  
GPO Box 787  
CANBERRA ACT 2601

Dear Dr Schott,

## RES Australia Submission: NEG Draft Design Consultation Paper

RES Australia welcomes the opportunity to provide input to the public consultation process for the National Energy Guarantee Draft Design Consultation Paper.

RES (Renewable Energy Systems) is a private, family owned company headquartered in the UK with 35 years of experience in planning, building and operating renewable energy projects. Established in the 1980's within the UK's Sir Robert McAlpine engineering and construction group, today RES is the worlds' largest independently owned renewable energy company with a 12 GW project portfolio across wind, solar and battery energy storage and also asset manages over 2 GW of renewable energy projects globally. RES operates globally with offices in 11 countries across the Americas, Europe and Asia Pacific.

Established in 2004, RES Australia is an industry leading renewable energy developer specialising in wind, solar and battery storage development and asset management across Australia. With a talented and experienced team, we have achieved financial close on over 400MW of new renewable generation in Victoria, Queensland and New South Wales. RES Australia has a development pipeline of 2.5GW across a number of states.

Having been involved in the renewable energy industry from its nascent days we have observed the various policies and changing markets for energy development over the years. The National Energy Guarantee design consultation paper is recognised as a meaningful step to introduce some certainty into an environment dominated by policy uncertainty and for that reason RES views this as a positive step.

Recent public auctions have highlighted repeatedly the LCOE cost advantage of renewable energy generation to any other new-build candidate technologies available. The work of Dr Finkel highlights the need for stable management of the electricity market's transition in replacing and decarbonising its ageing generation fleet.

RES recognises and supports the requirement of reliable energy supply and is working on the next generation of renewable energy based projects with dispatch certainty.

It is RES' view that increasing Sovereign certainty can only help in driving down the cost of energy and this translates to lower costs to consumers. RES is supportive of policies that are simple, efficient, transparent, explicitly and implicitly technology neutral, supports local and global decarbonisation objectives, provides certainty over investment time scales, and achieves political consensus.

RES observes that the current emissions target levels within the current National Energy Guarantee Draft Design appear to be set low. RES recognises that bi-partisan support on the design is a priority, after which time the target levels can be adjusted to reflect the level of leadership the Government chooses to adopt.

We have provided responses to a selection of questions posed in the consultation paper over the following pages and we would welcome the opportunity to discuss any of these further.

Yours Sincerely,

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## Section 3.2. Applying the emissions requirement

### 3.2.1.

- *What are stakeholders' views on whether the compliance year should be a calendar year or a financial year, noting that EITE exemption processes under the RET use calendar years, whereas emissions reporting obligations relate to financial years?*

### 3.2.2.

- *What are stakeholders' views on the process to calculate a retailer's load?*

We support moves that harmonise reporting periods as we believe this improves compliance, transparency and efficiency.

## Section 3.3 Contracting and emissions

### 3.3.1.

- *What are stakeholders' views on the methods for determining the emissions to assign to contracts where the generation source is specified?*
- *If the contract specifies a portfolio of plants and the plants have differing emissions profiles (eg some are zero-emissions plants and some are gas plants, used for firming the variable renewable energy), how should the emissions per MWh under the contract be determined?*

### 3.3.2.

- *What are stakeholders' views on how to determine the emissions per MWh to assign to contracts that specify an emissions level but do not specify a generation source?*
- *What are stakeholders' views on how the contract market may evolve to support this type of compliance with the emissions requirement?*

### 3.3.3.

- *What are stakeholders' views on the appropriate emissions level to assign to contracts that do not specify an emissions level or generation source?*
- *What (if any) impact would these approaches to determining the deemed emissions level have on the liquidity and availability of those types of contracts?*

### 3.3.4.

- *What are stakeholders' views on how to deal with internal non-contractual arrangements between the retail and generation arms of a gentailer, for the purposes of the emissions requirement?*
- *What are stakeholders' views on how to determine the emissions level to assign to contracts between the retail and generation arms of a gentailer?*

### 3.3.5.

- *What are stakeholders' views on how to determine the emissions level to assign to unhedged loads?*

RES recognises that the proposed design seeks to strike a balance within the erstwhile fractious political debate by proposing a structure that reflects a new direction from previous trading based platforms. RES supports the approach to strike such a balance and to reduce the politicisation of energy policy.

RES does have concerns however that the direction taken introduces undue complexity, cost, diminishes transparency and the associated ambiguity risks unintended compliance outcomes.

The electricity market structure has evolved greatly through the years and the contracting instruments have developed through the market evolution. The basis of the NEG design is based on a market and contracting arrangements of today, which risks creating an outdated scheme of the future.

Central to measuring the emissions per retailer is tracing the MWh origin applicable to that retailer. The proposed design recognises that retailers already have a wide range of methods of actively or passively procuring energy. The design also recognises a requirement for the generators to have their unit delivered energy certified for certain metadata such as emissions intensity and production vintage.

The Government has invested in and achieved significant gains in assessing, measuring and reporting both emissions intensity through the NGER, CER register, and AEMO's wholesale market data. These existing tools already provide the key elements to auditing the emissions intensity of generators. RES believes these registers should be used as the primary data sources to the NEG design and a system whereby the provenance and emissions levels of each MWh are certified and maintained and the obligation on retailers to demonstrate ownership of the respective registered MWh's.

This approach lends itself to the calculation of the residual emissions applicable to retailers that are not able to demonstrate ownership of registered MWh's within their deemed liability.

The approach proposed in the draft design transfers much of the obligation risk onto the regulating authority and increases interpretation and administration.

### Section 3.4 Flexible compliance options

#### 3.4.1.

- *Should the emissions requirement allow for unlimited carry-over of overachievement or specify limits on the carry-over of overachievement?*
- *If limits are to be specified, what should those limits be and how should they be designed? For example, should the size of limits vary inversely with the size of the retailer's load? This could give more flexibility to smaller retailers.*
- *If limits are to be specified, how should overachievement in excess of the limits be treated? Should there be a process by which it is offered to the market?*

#### 3.4.2.

- *What are stakeholders' views on the deferral of compliance?*
- *Should all retailers be able to carry forward a fixed amount or should it be set proportionally to a retailer's load? This could give more flexibility to smaller retailers than large ones. If so, would any provisions need to be introduced to prevent large retailers re-organising themselves as several smaller retailers in order to gain the benefit of the higher limit?*
- *If the limit on deferral should be a static percentage of load (rather than varying), what percentage is appropriate? That is, what percentage would provide the necessary flexibility without substantially increasing the risk that the overall emissions reduction target would not be met?*

### 3.4.3.

*If offsets are permitted by the Commonwealth Government:*

- *Should limits on individual retailers' use of offsets be set at an absolute level, regardless of retailer size? An absolute limit would represent a greater proportion of a smaller retailer's emissions than a larger retailer.*
- *Or, instead, should limits on individual retailers' use of offsets be based on the size of retailers' loads, such that offsets represent the same proportionate share of retailers' emissions regardless of retailer size?*
- *What are the pros and cons of each of the above approaches?*
- *If limits on use of offsets are independent of retailer size, how should the risk of large retailers splitting into several smaller entities for the purposes of increasing their overall offset limit be addressed?*
- *What (if any) requirements to use within-NEM opportunities before using offsets are appropriate?*

RES recognises that in providing investment certainty to new generation requires fixed targets, and that given the variability of load and generation that there will be fluctuations of provision and satisfaction of low emission generation delivery and targets. Over longer time scales of 3-5 years these fluctuations should even out to longer averages. To this end RES supports retailer carry-over for overperformance however these carry-overs should not have unlimited expiries. RES supports carry-overs in the 3-5 year expiry period so as to assist with the stable management of generation transition.

In a similar way, there are conceivable scenarios whereby a retailer may have an unintended shortfall. For example if the compliance year is aligned with a calendar year which tends to coincide with greater demand volatility, then a retailers contracted generation may fluctuate. In this way, RES acknowledges the desire of retailers to have some level of flexibility in their obligations. However, much like a loan system RES would support a penalty rate applied to any non-compliance volumes, for example 10% p.a., to incentivise retailers to adhere to the spirit of the scheme. Further, RES would support a limit to any retailer flexibility.

## Section 3.5 Interaction with voluntary 'green' programs

### 3.5.

- *What are stakeholder views on the interaction between the emissions requirement of the Guarantee and voluntary programs such as GreenPower?*

It is RES' view that the NEG design needs to a) account for any voluntary scheme related generation volumes and b) ensure that these are additional to the emission targets captured within the NEG. There have been historical instances where carbon neutral energy has been multiply allocated. Ensuring that voluntary schemes are accounted and additional ensures the integrity of the voluntary scheme and reflects the consumers belief of stimulating market outcomes with their deliberate choice.

## Section 3.6 Reporting and compliance

### 3.6.2.

- *What are stakeholders' views on the need for a compliance registry? What are stakeholders' views on its design?*
- *Are there alternative schemes that would allow retailers to monitor and verify compliance with the emissions requirement? How could these alternative schemes work?*
- *Are there any additional features which the registry should have?*
- *Should any of the data in the registry be made publicly available?*

### 3.6.3.

- *What types of information are likely to be required to be entered into the compliance registry in order for retailers to monitor and assess their compliance with the emissions requirement?*
- *Is information on generators' contracting positions also required to be entered into the compliance registry, for the purposes of reducing the chance of either double-counting or attributing generation output to the wrong retailer?*
- *Is there a need for retailers or generators to report contract pricing information as part of the input into the registry?*

### 3.6.4.

*What are stakeholder views on the proposed approach to compliance with the emissions requirement and particular:*

- *Whether this approach provides the appropriate drivers of compliance.*
- *The type of information the AER will need to access to ensure compliance.*
- *Other possible enforcement tools, such as increased prudential requirements or restrictions on accepting new customers while emissions requirements remain outstanding.*

It is understandable that with the proposed NEG to reside within the NEL and NER that the AER is an obvious regulator of the scheme. Care needs to be taken in ensuring the appropriate penalties apply to non-compliance. There are many provisions within the NER where non-compliance is limited to Civil Penalty. This transfers the burden of demonstrating non-compliance onto the AER and the appetite/capability to undertake such policing will depend on resourcing, clarity/simplicity of the scheme and transparency of relevant information. Similarly, where ambiguity exists, achieving precedent decisions will necessarily delay broader compliance which may amount to years.

RES' preference is for a scheme construction where the obligation is on the retailer compliance primarily and that exemptions are sought thereafter. Another avenue for compliance might be through AEMO's market settlements process, or the CER's which draws upon transparent market data discussed earlier.

## Section 4.2 Setting the electricity emissions target and review processes

### 4.2.2.

*Stakeholder views are sought on options for setting the emissions targets under the Guarantee.*

### 4.2.3

*Stakeholder views are sought on:*

- *Whether, and in what circumstances, electricity emission targets already set should be adjusted.*
- *The process for making any such adjustments to electricity emissions targets.*

#### 4.2.4.

*Stakeholder views are sought on the proposed timing for updating the electricity emissions targets, including a five-year notice period.*

#### 4.2.5

*Stakeholder views are sought on the proposed approach to setting the electricity emissions targets under the Guarantee and interaction with state renewable energy schemes.*

RES sees the challenge in having floating or percentage targets as these provide uncertainty to investments. That is, the forward build of capacity is uncertain. RES agrees with the ESB's approach in having periodic reviews to allow macro economic trends to be incorporated back within the scheme, both upwards and downwards. RES further agrees with the approach of enshrining a time window after each review to provide stable managed transition to the next target trajectory. RES would suggest that this window should be broadened to 10 years which reflects a minimum certainty period required for 30+ year investment decision.

RES understands the approach to recognise State targets within the NEG, although RES would suggest that the NEG targets are adjusted to reflect the relevant State targets. For example where the cumulative targets from the States exceed the NEG, the NEG should be adjusted to suit ensuring that a) the minimum levels of the NEG do not fall below the States' objectives, and b) the machinery established under the NEG has a better chance of being utilised in State schemes.

## Section 4.4 External offsets

### 4.4.

*Stakeholder views are sought on whether retailers should be allowed to use external offsets to meet a proportion of their emissions requirement. In particular, views are sought on:*

- Whether there is a strong rationale for the use for offsets within the Guarantee*
- The impact allowing offsets would have on investment under the Guarantee*
- If offsets were to be used to help achieve compliance with the emissions requirement, what would be an appropriate limit for their use?*

RES does not support the use of external offsets in seeking to satisfy emission obligations. The reason for this is quite simple. Where external offsets are used to satisfy an obligation for a number of years, the market has not undergone the necessary structural change required to reduce the carbon intensity required. So when the external offsets expire or are no longer economically viable, there is a significant investment required to bring the market to where it would be without the external offsets. This adds investment uncertainty.

## Section 5.6 Qualifying instruments

### 5.6.1.

- *What are stakeholder views on the types of contracts that should be considered eligible for the purposes of the requirement?*
- *Do stakeholders consider eligible contracts should be financial, or have a link to physical capacity?*
- *What do stakeholders think of the approach to certify financial contracts back to a physical asset?*
- *To what extent does the design choice about eligible contracts influence different types of retailers, and so market structure?*
- *What are stakeholder views on the proposed approach of determining the generation source in a vertically integrated business?*

RES would encourage the ESB to articulate the requirements for reliable energy. Currently the simplest definition would revolve around the Scheduled Generator designation. However there is an opportunity to articulate the requirements whereby future generation can seek to provide desired generation outcomes. By way of an example, a portfolio of renewable projects, each a Non or Semi Scheduled Generator singularly may be able to provide a percentage of firm generation at the same or better availability than the existing fleet of Scheduled Generators. By articulating the system reliability requirements in such a way and enabling such portfolio benefits to be recognised, it provides an incentive to developers to consider more acutely these requirements/aspirations.