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Submitted by email to [NationalEnergyGuarantee@environment.gov.au](mailto:NationalEnergyGuarantee@environment.gov.au).

### **National Energy Guarantee - Draft Detailed Design for Consultation - Commonwealth Elements**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Consultation Paper from the Commonwealth Government (Government) on the National Energy Guarantee (NEG) Draft Detailed Design - Commonwealth Elements Consultation Paper.

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

#### **Summary**

The NEG is an important policy to achieving a low carbon and reliable energy market. These policy objectives can be achieved through building on the existing strengths of the market and proving a much needed way forward on integrating climate and energy policy after decades of policy uncertainty.

Snowy Hydro supports the proposed design of the Commonwealth elements for the NEG. The proposed design is flexible and can adjust to both market changes over time and Australia's international climate change commitments.

Australia needs to do its fair share of abatement domestically and the economy needs to have the necessary infrastructure and capability to reduce emissions. Hence Snowy Hydro favours:

- Limited banking and borrowing of generation allocation;
- Limited use of credible international units/offsets; and
- A linear trajectory for emission targets set to 2030 then progressively extended beyond this time frame to provide investment certainty.

#### **Setting and reviewing the electricity emissions target**

Snowy Hydro is supportive of policies which can achieve the Government's stated emissions reduction target, maintain system security and reliability and maintain efficient energy costs for consumers. We agree that the NEG is a *"comprehensive plan for a more affordable and reliable energy system and provides for a credible and enduring emissions reduction mechanism in the National Electricity Market (NEM)."*<sup>1</sup>

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<sup>1</sup> Australian Government, 2018, *"National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements"*, pp4

National consistency should be a priority with regulatory frameworks which are in the long term interests of consumers. A consistent approach across the NEM should be taken to energy policy, with a single trajectory of electricity emissions targets set under the NEG. The coordination between governments through the NEG would mean one overarching policy and one overarching mechanism through the reliability requirement of the NEG would be used to ensure that there are sufficient dispatchable generation available in NEM Jurisdictions to meet State and/or Territory renewable energy targets.

The lack of a national, coordinated approach to climate and energy policy settings has created distortion in the market and an uncertain environment for investment in new generating capacity to meet the future needs of the NEM. Snowy Hydro therefore supports the Government's proposed approach to setting the initial electricity emissions targets and amending future targets under the NEG. There is an important role for governments to play in setting stable policy frameworks, then letting markets work to deliver secure and reliable energy, and consumer outcomes in response to consumer demands. Australia's commitment to follow a trajectory consistent with reducing emissions by 26 per cent below 2005 levels by 2030 is welcomed. The Commonwealth Government's proposal to initially set the electricity emissions target for ten years, from 2021-30 and to undertake regular five yearly reviews will ensure ongoing consistency with Australia's international commitments and further enhance investor certainty.

A key input to calculating the electricity emissions target in each year is the projected electricity demand for that year. The Commonwealth Government states that Australian Energy Market Operator (AEMO) is best placed to provide demand forecasts for calculating electricity emissions targets under the NEG. For transparency and accountability purposes AEMO should be responsible for the accuracy of the market demand forecast and openingly consult with Market Participants to understand how their forecasts can be improved.

The Government noted that *"If actual demand differs from the forecast demand levels used to calculate electricity emissions targets, this would impact the actual level of emissions reductions achieved under the Guarantee"*<sup>2</sup>. As the electricity system continues to transform it is likely that there could be increased errors in forecasting making it harder for participants to depend on these forecasts to make long term investment decisions. Hence, there needs to be increasing transparency on demand forecasting methodologies and processes. Market Participants want and need to further understand what AEMO intends to do to improve its demand forecasting accuracy.

We support the Government taking account of variations in demand when the next set of electricity emissions targets are set by 2025 for the period 2031 to 2035. We believe if the emission target was changed every year based on revised demand forecasts, this would create uncertainty and impact on investment.

### **Snowy 2.0 will assist efficiently meeting the Emissions Guarantee**

An independent study by Marsden Jacob Associates (Marsden Jacob)<sup>3</sup> highlighted the market benefits of Snowy 2.0 across numerous emissions targets. The report noted that Snowy 2.0 would have a profound influence on the NEM outcomes using the Large-scale Renewable Energy Target (LRET) and the Victorian Renewable Energy Target (VRET) development scenarios. Snowy 2.0 would provide substantial market benefits to the NEM and economic benefits to individual retailers

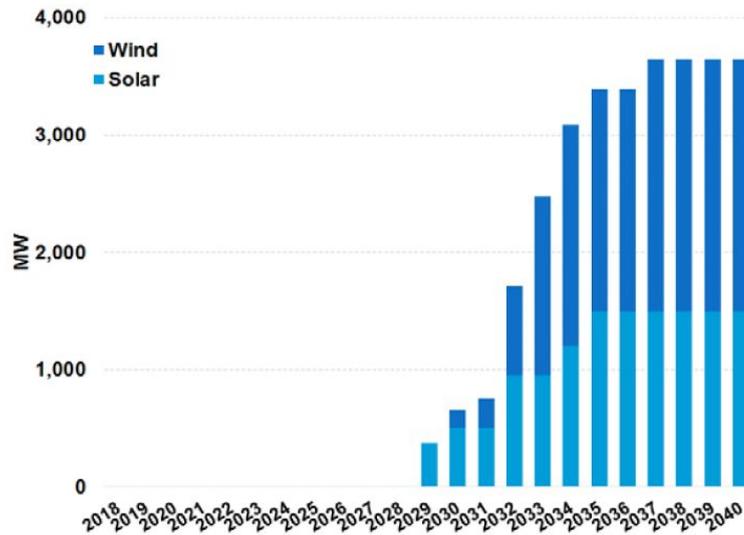
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<sup>2</sup> Australian Government, 2018, *"National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements"*, pp7

<sup>3</sup> Marsden Jacob Associates, 2017, *"NEM outlook and Snowy 2.0"*

through its renewable dispatchable capacity, storage size, location in the NEM, fast response and inertia.

Figure 1: Additional renewable generation development with Snowy 2.0, LRET+VRET scenario (MW)



Source: Marsden Jacob, 2017.

### The role of external offsets

Should the Government allow market customers to use offsets to meet their Emissions Guarantee obligations, Snowy Hydro supports the Government’s proposal to cap the number of offsets that could be used across the electricity sector with a review every five years. The Government could review the use of offsets under the NEG in 2025 along with setting the next five years of emission targets from 2031 to 2035 and every five years thereafter.

Snowy Hydro agrees with the Government that *“a cap on offsets could preserve the investment signal provided by the Guarantee, as the market would have certainty about the minimum level of emissions reduction the electricity sector would contribute to meeting the annual electricity emissions targets. It could also provide certainty to offset providers about the potential demand that could come from the electricity sector.”*<sup>4</sup> The use of offsets should be limited to enable a lowest cost outcome while still meeting the overall objectives of the Emissions Guarantee.

International offsets should also be limited on the grounds of the quality of the source and the need to develop domestic abatement capabilities. The consultation paper noted that *“there is uncertainty regarding the future supply and price of high-quality units”*<sup>5</sup> which highlights the need for Australia to develop the capability to reduce emissions and not be reliant on international permits/offsets. High quality international units should be capped with each market customer provided with an allowance of up to 5 per cent in a compliance year.

<sup>4</sup> Australian Government, 2018, *“National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements”*, pp15

<sup>5</sup> Australian Government, 2018, *“National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements”*, pp16

Snowy Hydro appreciates the opportunity to respond to the Consultation paper. Any questions about this submission should be addressed to me by e-mail to [kevin.ly@snowyhydro.com.au](mailto:kevin.ly@snowyhydro.com.au)

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Ly', with a horizontal line underneath.

Kevin Ly  
Head of Wholesale Regulation  
Snowy Hydro

