

**National Energy Guarantee
Response to
Draft Detailed Design
Consultation Paper
dated 15th June 2018**

13th July 2018

1 Executive Summary

Tilt Renewables thanks the Energy Security Board for the opportunity to comment on the development of the National Energy Guarantee (NEG) Draft Detailed Design Consultation Paper.

Tilt Renewables is a leading Australasian renewable energy owner, operator and developer with a total operating asset base of 636 MW across Australia and New Zealand. Currently 439MW of Tilt Renewables' operational assets are in the NEM and the company has a development pipeline including wind, solar and storage of over 2000MW. Tilt Renewables and its majority shareholder, Infratil has significant expertise as investors and advisers in design of electricity and clean energy markets in a number of other jurisdictions including the United States, New Zealand, United Kingdom, and Western Australia.

Ongoing emissions reduction mechanisms are required for the electricity sector, given the Renewable Energy Target (RET) will effectively cease to motivate further investment in renewable energy (i.e. zero or low-emission) generation in the NEM from 2020.

While significant investment is occurring currently, a lack of policy certainty over recent years has complicated forward planning for investment in new generation in the NEM. It is critical that new policy initiatives be well considered, designed and stress tested for their practicalities in the NEM, as well as achieving bi-partisan support to ensure policy stability through the typically longer timeframes of investment in this sector.

Tilt Renewables appreciates policy makers concerns with electricity prices, reliability and security given recent events. We believe that many of the actions already taken together with current strong levels of investment – which can continue with the right policy settings – have already produced materially improved outcomes and further improvements are expected. The NEM already has an excellent electricity market design which has operated successfully for over twenty years. Improvements are required and attention needs to be given to further emissions reductions and fostering competition, with changes building on the existing successful existing NEM design.

Tilt Renewables supports the high-level goals of the NEG. However there are some aspects of it which require refinement in order for the framework to be effective, and others where appropriate definition of the details of specific elements will be critical to ensuring its effectiveness. In summary, Tilt Renewables recommends that:

1. The Commonwealth Elements of the scheme be significantly strengthened, including an increased target for emissions reductions, flexibility to increase that target over shorter time periods, and the exclusion of all offsets from outside the Australian electricity sector in the scheme.
2. The emissions registry be implemented in such a way that transparency is maximised, that generators are not forced to allocate their generation to any specific market customer, and that over-achievement by market customers is allowed.
3. That the limit for the default inclusion of Non-Market Embedded Generation in the emissions registry be reduced to 1MW, with all embedded generation having the right to opt-in to the emissions registry.
4. That the additionality of GreenPower be entrenched in the detailed design of the NEG, and that the ESB continues to work with the National GreenPower Steering Group to ensure that an efficient and effective way of implementing this policy objective can be found.
5. That mechanisms be included in the NEG to allow for voluntary additionality to the emissions requirements under 'corporate PPAs' and state-based schemes.

6. That the reliability requirement exclude scheduled loads from inclusion as liable entities, and that the categorisation of the “firmness” of qualifying contracts be made much clearer.
7. That penalties for non-compliance be clearly defined, and be proportionate such participants can clearly understand the consequences of both minor and major non-compliances.
8. That careful consideration and further consultation be undertaken with respect to how the NEG will be implemented, in particular which elements will be included in legislation, which in the National Electricity Law and which in the National Electricity Rules.

Whilst not related to the paper itself nor the ESB’s proposal, Tilt Renewables also notes with great concern reports that representations may be made to the Federal Government to consider direct or indirect funding towards specific generation projects or technologies, as part of negotiations for the approval of the NEG. Any new arrangements which resulted in intervention by the government in the electricity market, with a bias towards specific technologies which will not support Australia’s low emissions future, would completely compromise the entire NEG framework, and must be rejected.

Sections 2 and 3 below provide further comment on some specific aspects of the Emissions and Reliability requirements respectively.

2 Emissions Requirement

2.1 Commonwealth Elements

Tilt Renewables has separately presented a submission in response to the paper by the Department of the Environment and Energy titled “National Energy Guarantee, Draft Detailed Design for Consultation, Commonwealth Elements”. That submission will not be repeated in full here, however for reference our key recommendations on the Commonwealth Elements of the NEG are:

Proposed Emissions Target – That the NEG should include a significantly more ambitious emissions reduction target, that is sufficient to allow Australia to meet its overall long-term greenhouse gas emissions reduction goals, in accordance with the Paris Agreement. The currently proposed 26% reduction on 2005 levels is clearly inadequate.

Review mechanisms for the Emissions Target – That the NEG should include an emissions target review mechanism that allows for increases (but not decreases) to the targets to be defined by the Federal Government over time, for example an annual review and then updating targets for a moving 5-year window, with notification of any amendments to targets 3 years in advance.

Role of Offsets – That the NEG should not include any mechanism for the inclusion of external offsets, either domestic or international.

2.2 Emissions Registry

The emissions registry as it is currently described would seem to be a workable structure for the registry of emissions by generators and the assignment of such emissions to retailers or market customers, subject always to the agreement of the original generator.

Key aspects to ensure the registry will be efficient and effective include:

- Appropriate levels of transparency – this will allow efficient negotiation and transfer of emissions allocations between generators and retailers. The current ESB proposal provides for very limited information on the registry to be made available, and only to direct participants. This does not appear to have a justification and would seem counter to efficient market practices. The register should be largely open to all participants and to third party parties, providing transparency and allowing for informed and efficient decision-making by participants. Effectively capping emissions, but not allowing efficient contracting between liable entities and providers of low-emissions generation, will only lead to inefficient outcomes. In particular, the current proposed design would appear to create asymmetrical information between market participants, proposing that market customers would be able to see all unallocated generation from generators, however without generators being able to see the positions of market customers. This is not a characteristic of an open and efficient market.
- Avoiding the requirement that all emissions be allocated by generators to market customers. In a situation where there was no reasonable offer from a market customer to a generator to contract with them for their generation to be allocated to that market customer in the emissions registry, it is not reasonable to force such an allocation.
- Avoiding limits on over-achievement and removing the ability for market customers to ‘carry forward over-achievement’. Over-achieving in a specific year should be a right that each participant has, given that they would presumably be assuming a real or at least opportunity cost to do so, and that the impact of such over-achievement would be over-achievement in that year of the overall emissions target – surely a positive outcome from the policy.

2.3 Treatment of Non-Market Embedded Generation

Tilt Renewables proposes that Non-Market Embedded Generation over 1MW (as opposed to 5MW in the proposed design) should be by default included in the emissions registry, and that all other Non-Market Embedded Generation should be able to opt in to the registry. Generation projects of over 1MW would typically be of a size where their owners would have the interest and sophistication to be included in the register, and no justification is given for not including them in the register. Furthermore, all generators in the NEM should have the ability to participate in the register in an opt-in basis.

2.4 Compliance and Penalties

Tilt Renewables suggests that more specific and proportional penalties for non-compliance be included in the scheme. Whilst Tilt Renewables supports measures to ensure compliance with the NEG, the current wording suggesting fines of up to \$100 million does not appear to be designed to allow for penalties proportionate to the degree of non-compliance, nor to provide a clear signal to participants regarding the realistic consequences of non-compliance. A clearly defined penalty price would be preferred, as this would send a clearer signal to the market.

2.5 GreenPower Additionality

To maintain the integrity of an existing scheme under which investments have been made in good faith, it is crucial that as part of the design of the NEG, the integrity and additionality principles of the GreenPower Program are sustained.

The paper recognises this position and accepts that further work should be undertaken to ensure the additionality of GreenPower. Tilt Renewables strongly supports the ESB’s intention to work with the National GreenPower Steering Group to find a way to achieve the policy goal of maintaining additionality. We note that the paper raises the concern about leaving the emissions registry “unbalanced” if GreenPower load was to be subtracted from market customers’ loads, however we note that as mechanisms have been developed to effectively exclude Emissions Intensive Trade Exposed activities, it would seem reasonable that similar mechanisms could be applied to GreenPower load to exclude this and maintain its additionality. In any case Tilt Renewables encourages the ESB’s continued consultation with the National Greenpower Steering Group to define an appropriate mechanism.

2.6 Additionality of Corporate PPAs and State-based schemes

A number of state-based schemes have been implemented under which significant investments have also been made and committed. Where these arrangements have been designed to be additional to the RET, the principles of additionality should still apply, with mechanisms in principle similar to that described above for GreenPower. Denying market participants the possibility of ensuring their efforts to reduce greenhouse gas emissions could be effectively considered additional to the minimal level proposed by the Commonwealth, is not reasonable nor effective policy.

3 Reliability

3.1 Liable Entities

Tilt Renewables requests that the ESB consider the treatment of grid-connected energy storage (in particular pumped hydro and batteries) in defining the liable entities under the reliability requirement. Such technologies will be critical to the reliability of the network in the future, and may be both generators and loads at different times. Under the present drafting they would be captured as large customers, and would therefore be required to enter into qualifying contracts should the reliability obligation be triggered. This is counter to the impact that such technologies would actually have on system reliability and does not fit with their profile as providers of energy during critical periods. To counter this potentially perverse outcome, scheduled loads should be exempt from the reliability requirement. This would be consistent with scheduled loads, by definition, not contributing to problematic peak demands, due to the management of such loads by AEMO.

3.2 Qualifying Contracts

The current mechanisms for defining qualifying contracts and their “firmness” requires further development and definition to provide clearer guidance for those entering into and providing electricity contracts. Some discretion to take account of specific circumstances may be warranted, however further guidance in the details of the NEG would assist market participants design and value qualifying contracts, and market customers to enter contracts fully understanding the impact they may have on their compliance with the reliability requirements.