



Australian Government – Department of the Environment and Energy

Via email: NationalEnergyGuarantee@environment.gov.au

6 July 2018

**Re: Submission by Tilt Renewables in response to the National Energy Guarantee
Draft Detailed Design Consultation Paper – Commonwealth Elements**

Tilt Renewables thanks the Department of the Environment and Energy for the opportunity to comment on the Commonwealth Elements of the National Energy Guarantee Draft Detailed Design Consultation Paper (the 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 2,000MW. 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.

We will separately be providing a response to the Energy Security Board (ESB) on their paper relating to the overall proposed National Energy Guarantee, and are pleased to provide herewith our submission in response to the Commonwealth Elements Consultation Paper. Regarding the Commonwealth Elements of the proposed National Energy Guarantee, we ask the Department to consider the following points:

1. **Proposed Emissions Target** – The target currently proposed is inadequate for Australia to efficiently achieve its overall Paris Agreement emissions targets. It is well accepted that the electricity sector, whilst accounting for around one third of Australia's greenhouse gas emissions, is where the lowest cost reductions are available to the overall Australian economy. The pro rata allocation to the sector of the minimum national commitment will either put an unnecessary burden on other sectors of the economy to achieve more costly reductions, or will result in the overall national targets failing to be met.

Specifically, the Guarantee 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.

2. **Review mechanisms for the Emissions Target** – The current proposal to lock in the precise emissions targets for a period of 10 years is overly restrictive. Whilst a minimum level is relevant for investor certainty, it is important that flexibility be provided to increase targets over time to ensure that Australia does indeed meet its overall emissions goals, which as outlined above is far from guaranteed by the Guarantee under the current settings.

Specifically, the Guarantee 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.

3. **Role of Offsets** – The inclusion of offsets from outside of the electricity sector would contradict the goals of the National Energy Guarantee, which as stated in the paper include to facilitate *"a more affordable and reliable energy system and provide for a credible and enduring emissions reduction mechanism in the*

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National Electricity Market (NEM)". The inclusion of offsets from outside the electricity sector will only dilute the impact of the Guarantee on the electricity sector itself, reduce investment signals and consequently increase wholesale energy prices, due to reduced investment in new low marginal-cost generation. In addition, whilst the electricity sector is assigned its target on a pro rata basis (as is currently proposed), counting towards this scheme offsets from other areas of the economy will clearly further diminish the possibility of the overall Australian economy meeting its emissions reductions targets.

The Paper states that the inclusion of offsets is being considered based on the design principles of ensuring affordability, facilitating efficient investment and promoting competition. The inclusion of offsets would not satisfy any of these principles. Such inclusion would reduce overall energy affordability, as it would delay investment in new generating capacity which would then put upward pressure on wholesale electricity prices. It would not facilitate efficient investment due to the uncertainty that linking the Guarantee with mechanisms outside of the electricity sector would create. And whilst it may in theory create competition for emissions reduction, where this was only allowed in one direction (external credits qualifying under the Guarantee, but not the reverse) this would clearly be ineffective and inefficient from a market competition perspective. Furthermore, where the emissions targets under the Guarantee were not increased to reflect the Guarantee effectively covering areas beyond the electricity sector, this would simply dilute the achievements of the framework.

Specifically, the Guarantee should not include any mechanism for the inclusion of external offsets, either domestic or international.

Whilst not related to the paper itself, 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 National Energy Guarantee. 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, should be rejected.

If you wish to discuss any aspect of our submission further, please contact the undersigned. Tilt Renewables is committed to supporting development of a suitable a policy framework for the Australian energy sector, and would be happy to continue to support the Department of Environment and Energy, together with the Energy Security Board, in the development of energy policy.

Regards,

A handwritten signature in blue ink, appearing to read "Nigel Baker".

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