



Energy Security Board  
National Energy Guarantee  
Policy Team  
By E-mail: [info@esb.org.au](mailto:info@esb.org.au)

March 9, 2018

Dear Policy Team,

**Re: National Energy Guarantee Draft Design Consultation Paper**

Viva Energy Australia Pty Ltd (Viva Energy) welcomes the opportunity to comment on the Draft Consultation Paper for the National Energy Guarantee (NEG) and welcomes further consultation beyond the preliminary information supplied with this correspondence.

As one of Australia's largest manufacturers, importers and wholesaler of fuels, electricity and gas are essential inputs to our business. Therefore, we have a natural interest in the high-level design of the proposed NEG from the perspective of a commercial and industrial consumer of energy.

**About Viva Energy**

Formed in 2014 following the purchase of Shell's downstream business in Australia, Viva Energy's operations include the Geelong Refinery (Victoria), a 950+ retail service station network and bulk fuels, aviation, bitumen, marine, chemicals and lubricants businesses supported by more than 20 fuel import terminals across the country. Viva Energy is the exclusive licensee to the Shell brand in Australia.

**Geelong Refinery**

Geelong Refinery is a critical part of Viva Energy's business and provides significant benefits to the local Geelong, Victorian and Australian economies. With a production capacity of up to 120,000 barrels per day, Geelong Refinery supplies over half of Victoria's fuel needs and around 10% of Australia's demand. Geelong is the only refinery in Australia producing solvents (for industries such as paint manufacture), bitumen, avgas (for piston engine planes) and produces low aromatic fuel to help combat petrol sniffing in Northern Australia.

Industries such as Geelong Refinery are highly energy intensive and rely on electricity and gas to operate as well as being key inputs into the refining process with gas being used as a refinery fuel. As one of the top 10 gas users in Victoria (~5PJ pa) and a major user of electricity (~320GWh pa), the supply, reliability and pricing of electricity and gas is critical to our business. Low energy costs have traditionally been one of the few competitive advantages we have enjoyed over our international competitors.

**National Energy Guarantee**

There has been recent acknowledgement that Australia's Energy Policies need to be reviewed and refreshed, particularly in light of reliability challenges driven by the changing mix of energy generation (including more renewables), the closure of ageing coal-fired power plants and rapidly rising gas and electricity prices.

While Viva Energy welcomes the draft National Energy Guarantee (NEG) and progress towards a firm energy policy, we support policy measures where there are net demonstrable and long-term benefits backed by sound and rigorous analysis while being cognisant of the impact of these policies on the sustainability of industries which compete head on with imports. Any benefits in respect of energy policy should be measured against reliable and affordable energy supply and regulatory certainty for energy generators and retailers and energy users.

We also support policy measures that are designed to reduce complexity, administrative and regulatory burden on industry. We support a simple yet efficient policy framework, which by definition preferences a national approach to a patchwork of differing State-based programs. Therefore, the role of State-based schemes such as the VRET in Victoria, and their interaction (or conflict) with the NEG will need to be understood before a thorough assessment can be made by industry on the policy.

This is relevant in light of the NEG being formulated to help deliver the Commonwealth's Paris commitments.

We support the comments made by the Energy Users Association of Australia (EUAA) in its media release in November 2017 when the initial NEG outline was released that, *"we are wary of the additional, heavy regulatory burden that appears to be placed on the energy industry and what that may mean for competition and long-term energy prices"*.

Despite the Consultation Paper not containing sufficient detail to conduct a thorough assessment, there are three main areas of the high-level design of the NEG where we wish to provide comment:

- Emission Intensive Trade Exposed (EITE) Industry;
- Competitive Markets and Contracting; and
- Reliability Requirements and Allocations.

### **Emission Intensive Trade Exposed Industry (EITE)**

Emissions-intensive trade-exposed (EITE) businesses produce outputs that are exposed to competition from international trade. This means they have less flexibility in how they can respond to commercial pressures. Geelong Refinery is an EITE business that competes against significant levels of imports from international refineries. Additional regulatory burden imposed on Geelong Refinery adds further costs to manufacturing in Australia, which we are unable to pass on to our customers due the import parity nature of fuel pricing in Australia. Additionally, these costs may not be similarly borne by international competitors so further puts Geelong Refinery at a competitive disadvantage.

Geelong Refinery has been repeatedly recognised as an EITE business through multiple Government processes over a decade or more. This includes as part of the various forms of exemptions certificates provided as part of the Renewable Energy Target (RET) and the Emissions Reduction Fund - Safeguard Mechanism (SGM).

Viva Energy strongly supports the ongoing provision of EITE assistance at the current 100 percent offset rate. We strongly support the Commonwealth Government's intention to exempt all electricity used to conduct an EITE activity from the emissions requirement under the NEG.

Viva Energy recommends that the implementation of EITE provisions are streamlined so that the methodology is harmonised across the RET, NEG and SGM policies. Noting that RET adopts an

activity definition model whereas a production variable model is proposed under the SGM, these could be aligned to ensure administration simplicity and consistency of approach.

We look forward to further consultation on how this provision may be implemented as part of the NEG.

### **Competitive Markets and Contracting**

The current market dynamics, including the recent retirement of a number of coal-fired power stations across the National Energy Market (NEM), notably Hazelwood in Victoria, have caused energy prices to rise rapidly with little time for industries such as ours to adjust.

Viva Energy supports an appropriately regulated NEM spot market, policy certainty and competition amongst market participants as the best way to keep energy prices low and reliability at acceptable levels. Given the energy intensive nature of our operations, access to a reliable and reasonably priced supply of electricity is a critical priority.

Under the NEG, it is proposed that energy retailers will have dual obligations to meet both reliability (dispatchability) and emissions guarantees.

While the Energy Security Board (ESB) claims that the NEG could support market liquidity in the contract market, we are concerned that an unintended consequence of the NEG may be that market liquidity is, in fact, reduced. This may occur due to the likely need for energy retailers to create multiple new categories of contracts (related to reliability and emissions) so that they can fulfill their dual obligations under the NEG. Large vertically integrated generator/retailers with established generation portfolios are likely to have an advantage in meeting these obligations. When liquidity decreases, smaller energy retailers with little or no generation portfolios will likely have difficulties procuring (or have to pay a premium for) contracts specific to their needs.

Therefore, this may lead to strengthening the position of large, vertically integrated generator/retailers and result in a concentration of market power and an associated reduction in overall competition.

Smaller energy retailers have been at the forefront of offering innovative market-facing electricity procurement contracts for our Geelong Refinery. It is difficult to see how they will be able to compete under the NEG without potential access to appropriate generation capacity.

In addition to the above, it is likely that energy retailers will be exposed to large internal administrative and compliance costs under the NEG. There is a real risk that these costs will be passed onto customers such as Viva Energy.

### **Reliability requirements and allocations**

Geelong Refinery is a continuous manufacturing process which operates 365 day per year, 24 hours per day. Therefore, reliable and consistent energy generation and dispatch is critical to our operations. As an example, in 2012 an unexpected power outage at the refinery (as well as other contributing factors in the State) resulted in a significant diesel supply shortage in Victoria. Given that Geelong Refinery supplies more than half of Victoria's fuel, reliable energy supply is critical to supporting that.

Under the NEG, it is proposed that the Australian Energy Market Operator (AEMO) will be tasked to forecast any reliability gap and then respond in a way that minimises distortion in the market and provides a signal for investment. Building more generation capacity in theory should, bring wholesale



energy prices down. However, there is a risk that addressing any identified reliability gap under the NEG may be done in a way which leads to excess generation capacity being constructed. The risk is analogous to the so-called “gold plating” of the transmission and distribution systems which has occurred over the last 10 years.

Without a clear and transparent means of determining and enforcing the reliability gap, it is likely forward electricity prices will factor in a premium, representing the associated uncertainty in the future energy generation mix. Many commercial and industrial energy users (such as the Geelong Refinery) source their energy by purchasing forward contracts therefore, any uncertainty or confusion in forecasting reliability risks could be reflected in higher forward contract prices.

Reliable and affordable energy supply is critical to our operations so we look forward to ongoing discussions and further consultation in due course as the development of the NEG progresses.

Should you wish to discuss any aspect of our submission or clarify the comments made, please contact Patrick Stock on (03) 5273 8627 or at [Patrick.Stock@vivaenergy.com.au](mailto:Patrick.Stock@vivaenergy.com.au) .

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Patrick Stock".

Patrick Stock  
Contracts and Procurement Lead – Geelong Refinery