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Submitted by email to NationalEnergyGuarantee@environment.gov.au

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National Energy Guarantee Draft Detailed Design Commonwealth Elements

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Commonwealth Elements of the National Energy Guarantee (NEG).

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC supports the mechanisms enshrined in the NEG. Lack of a national, stable and efficient emissions policy has been a challenge for the electricity industry for many years and has created barriers to dispatchable investment. The NEG is intended to provide a platform by which the industry can invest in sufficient dispatchable options in order to maintain system reliability and provide competitive consumer prices, whilst meeting emissions constraints set well in advance by government.

The AEC fully accepts that the National Electricity Market (NEM) needs to play a significant part in Australia achieving its internationally agreed emissions targets. This is accepted by all investors in the NEM. Hence, continuing to fail to provide the industry a structure under which investors can anticipate how this part will be played will only serve to further inhibit investment and raise consumer prices.

The Energy Security Board (ESB) has developed a design that constrains carbon in a technology neutral and market-based manner. In conjunction with other market changes, the Reliability Guarantee builds on the market's existing contracting arrangements to provide greater stakeholder confidence in maintaining system reliability. The AEC and its members have engaged closely with the ESB through the NEG's development and is providing detailed comments via their consultation.

Setting and Reviewing Targets

Adequate notice period is the most critical issue to the AEC's membership with respect to emissions targets. Five years' notice of change represents the minimum requirement to allow a reasonable adaptation by the industry's operations, whilst also providing some flexibility for governments to adjust ambition in recognition of the industry's appropriate role in meeting Australia's international targets. Five years is necessary to enable investors to significantly re-adjust their business operations in response to a material target change. This includes reconsideration of the roles and valuations of existing and new assets, arranging fuel supplies, organising permits and licenses, recruiting and contracting.

The paper's proposed 10-year fixed trajectory is commendable in its attempt to provide industry certainty, however such a long period may paradoxically undermine its credibility for investors, as they will assume changes in government ambition will force re-legislating the target setting process. In response to this, the AEC suggests the government should consider one or more of the following:

- Maintaining the five-year minimum notice period, but allowing the government of the day to adjust targets from year plus-six onwards more frequently than every fifth year.
- Appointing an independent agency to recommend the appropriate trajectory from year plus-six onwards.
- Providing an indicative target trajectory until 20 or more years into the future, noting that this will of course be available for adjustment on the basis of changes to international agreements or economic circumstance.

The AEC recommends that the fixing of targets for the five-year minimum notice period be mirrored within the National Electricity Law as a means by which further industry certainty can be provided.

The AEC also supports the proposal for expressing the budget as a fixed electricity emissions intensity target in order to maximise investor certainty.

The proposed approach of geographical neutrality is also supported.

Participating Jurisdictions

The AEC (whose members include the bulk of the Western Australian Wholesale Electricity Market generation and retailing) supports efforts to include large¹ non-NEM grids in the scheme. This will further enhance the capability of the scheme to identify least cost abatement and also assist these grids in achieving emissions policy stability.

Emissions Intensive Trade Exposed Activities

The AEC acknowledges the government's desire to maintain competitive neutrality for Emissions Intensive Trade Exposed (EITE) activities with international partners. The government has proposed a process for including additional activities as eligible. The AEC recommends also that a process be included to reconsider eligibility for existing activities where it can be demonstrated that equivalent international activities are subject to emissions constraints.

It will be important that the latest information on EITEs is quickly shared between the provider of exemptions, being the Clean Energy Regulator (CER), and the operator of the emissions registry, planned to be the Australian Energy Market Operator (AEMO), who will need to make critical scaling calculations. Importantly, this information flow should not have to wait until customers or retailers provide consent.

In addition, it is important to ensure that these institutions can notify retailers directly of EITE certifiable amounts. As it stands, section 22ZHD(b) of the *Renewable Energy (Electricity) Regulations 2001* requires that notice of the amount can only be given to the retailer with the consent of the EITE. This consent should not be replicated in the NEG act, to ensure that liable entities do not have to wait until EITE customers notify them of amounts, because this will affect retailers' emissions calculations.

Providing an activity exemption is necessarily complex, creating difficulties for retailer compliance. The AEC will submit to the ESB consultation that the EITE scaling factors could be implemented earlier than the currently proposed 1 October, preferably by early August, in order to provide retailers more time to adjust their emissions positions.

External Offsets

The AEC notes the government is still considering whether offsets should be allowed under the guarantee. This consideration should attempt to balance the following competing objectives:

¹ "Large grids" borrows from the concepts already defined in the Renewable Energy Act

- Seeking a least-cost approach to meeting Australia's obligations in reducing global emissions; and
- Providing investor confidence in the Australian electricity markets with respect to the level of domestic investment required.

In their individual submissions, AEC members will comment directly on relevant matters that the government should take into account in making this difficult judgement.

Should the government choose to allow offsets, the issues discussed and possible approaches presented in the paper are broadly supported by the AEC. Again, AEC members' submissions will comment these issues in more detail.

It will be important that any allowed offsets are subject to a high level of quality assurance in relation to both governance and additionality. A volume constraint may also be useful in finding a balance between the two objectives listed above.

Any questions about our submission should be addressed to me by telephone on (03) 9205 3116.

Yours sincerely,



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