



Department of Environment and Energy

Draft detailed design for consultation – Commonwealth Elements

6 July 2018

Dear Sir/Madam

Aurizon Network Pty Ltd (Aurizon) welcomes the opportunity to respond to the *Draft Detailed Design for Consultation - Commonwealth elements (Consultation Paper)* regarding the National Energy Guarantee (NEG).

1. Background

Aurizon is a major Queensland energy consumer that owns and operates the regulated open-access Central Queensland Coal Network (CQCN), a heavy haulage rail network. Approximately 2,000 kilometres of the CQCN is electrified allowing train operations that use either electricity or diesel fuel as their source of traction power. The electric traction network represents a significant proportion of Queensland's regional and total energy load and provides a critical supply chain link for Queensland coal exports.

Aurizon has made major investments to develop the infrastructure required for the electric network which enables efficient heavy haul train operations as part of a globally competitive export supply chain. The maintenance of the network for use by electric trains involves a material commitment. Furthermore, the electric network has the potential to realise greater environmental benefits in the future as emissions from electricity generation are reduced.

However, because of the substitutability of electric traction for diesel, Aurizon is sensitive to any cost and reliability impacts to electricity supply including where they result from climate change and energy policy goals and the mechanisms introduced to achieve those goals.

Fuel switching remains a real risk for Aurizon's electric traction network. Customers of the rail network, have the option of diesel or electric traction and exercise that option based on their view of traction competitiveness. If the NEG fails to deliver reliable and affordable electricity consistent with climate objectives, there is risk to the future of electric traction, investments made by Aurizon and rollingstock operators and to environmental benefits that are available from utilising electric train operations. The future of electric traction depends on its ability to compete as part of the global supply chain and to offer a cheap, reliable alternative to diesel locomotives.

2. Setting electricity emissions under the guarantee and future targets

Aurizon is supportive of an emissions target that provides stability and greater certainty for investors. The proposal to assess emissions as the annual average emissions per Megawatt hour seems to link it to emissions intensity. Aurizon considers this approach would minimise the impact of changes to supply and demand across the National Electricity Market, and provide greater certainty into the future.

Providing investment and policy certainty over time should be a key consideration when setting future targets. Adjusting the target annually based on revised demand forecasts could increase uncertainty. Instead, if variations in demand and the impact on emissions are dealt with when electricity emissions targets are set periodically, that would likely increase certainty, provided that doing so enables Australia to meet its climate policy goals.

3. The proposed approach to streamline the RET and Guarantee exemptions to minimise the regulatory burden for EITE entities

Aurizon supports an approach where an entity can make a single application for exemption as an EITE activity under the RET and the NEG. To the greatest extent possible, the existing mechanism should be used to consider EITE exemptions to minimise regulatory burden.

4. External Offsets

In its original response to the detailed design of the NEG, Aurizon expressed its support for the inclusion of external offsets into the NEG, stating:

“Aurizon supports the use of Australian Carbon Credit Units (ACCUs) and international offsets to meet emissions obligations in the most efficient and cost-effective manner. Access to offsets would provide flexibility in the design of the policy mechanism and increase consistency between the NEG and other Australian climate policies. Including international carbon offsets would improve international competitiveness by providing access low-cost emissions reduction opportunities in addition to those available domestically. Risks associated with the integrity of international offsets could be mitigated through the application of appropriate qualitative and quantitative criteria.

Providing electricity market participants access to external offsets would link the electricity sector to the broader economy, put downward pressure on emissions costs and is consistent with the Government’s 2017 Review of Climate Change Policies.”

Aurizon reiterates its support for the inclusion of external offsets, and notes that the interaction of offsets with the broader NEG design (e.g. ability to carry forward emissions abatement) needs to be considered holistically. Effective policy design should allow the inclusion of external offsets to support affordability, promote competition and facilitate efficient investment.

5. Conclusion

Aurizon welcomes the Commonwealth government’s commitment to consultation. Ensuring that changes minimise regulatory burden, and provide – to the greatest extent possible, flexibility to increase affordability while maintaining system reliability consistent with climate policy goals is critical to the future of electricity intensive industries. Electricity supply has traditionally been a key competitive advantage for Australian businesses and it is Aurizon’s desire for that competitive advantage to be restored.

Should you wish to discuss further, please do not hesitate to contact myself or Liam Byrnes at liam.byrnes@aurizon.com.au / 07 3019 1231.

Yours sincerely



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