



9 March, 2018

Dr Kerry Schott
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RE: National Energy Guarantee: Draft Design Consultation Paper

Dear Dr Schott,

Thank you for the opportunity to comment on the initial consultation paper released by the Energy Security Board (ESB) on the National Energy Guarantee (Guarantee).

BHP advocates for policies that meet the objectives of energy affordability, energy reliability and emissions reductions through frameworks that are technology neutral and promote market efficiency. In this vein, we have expressed support for the efforts by the Commonwealth and State governments to progress development of the Guarantee.

In our view, the Guarantee provides a policy framework with the potential to achieve the reliability and emissions outcomes required from the National Electricity Market (NEM). If implemented effectively, the Guarantee is likely to be a durable mechanism, which should provide the policy confidence necessary to unlock long term investment.

We would like to offer the following feedback on selected issues raised by the ESB in its initial consultation paper:

- The ESB should ensure the Guarantee is able to support an appropriate level of competition in the NEM, and does not inadvertently create barriers to entry for new players. In pursuing such an approach to competition, the ESB should give consideration to the complexity of compliance arrangements, the type and level of information that will be available to market participants, and the need for temporary market monitoring.
- We support allowing the use of national and international offsets within the Guarantee (as well as other policy frameworks, such as the Emissions Reduction Fund and Safeguard Mechanism). Consideration should also be given to how the overachievement of retailers under the Guarantee could be accessed as offsets by entities from other sectors. Facilitating the flow of offsets between the electricity sector and other sectors would enhance the efficiency of Australia's overall emissions reduction efforts.
- For Australia to meet its emissions reduction targets, businesses in Australia will need to make significant changes to how they produce, distribute and/or use energy. The timeliness and efficiency of these changes will ultimately be dependent on the predictability of long term policy settings and the consistency of climate change approaches across Australian jurisdictions. The proposed process for updating the electricity emissions targets (so that the market has, at any time, between five and 10 years of targets available to guide investment decisions) appears to strike an appropriate balance between investment certainty and policy flexibility.

- We note the ESB is proposing to implement the majority of the Guarantee through amendments to the Australian Energy Market Agreement, the National Electricity Law and the National Electricity Rules. This should provide the Guarantee with a degree of durability. Beyond this, it is imperative the governance arrangements and structure of the Guarantee are sufficiently flexible to address not only the challenges of today, but also the challenges posed by the transition to a low carbon economy in the future.
- Ensuring that there is sufficient liquidity in the electricity contract market must be a feature of the Guarantee and should be a priority of the ESB. The Guarantee should be implemented in a way that does not require fundamental changes to the operation of the wholesale market, while also minimising compliance costs and regulatory burden on individual businesses.
- Within the context of policy to address the energy trilemma, the ESB should ensure recognition is given to the impact of policy on trade exposed sectors, and that measures to achieve a level playing field for Australian export industries are incorporated into policy design.

Thank you again for the opportunity to comment on the initial consultation paper. We would be happy to expand on any of the points raised above with you or other members of the ESB. We would also be willing to participate in future consultations on the design of the Guarantee.

Yours sincerely,



Tony Cudmore

Group Sustainability and Public Policy Officer