

Australian Government
Department of the Environment and Energy

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Submitted via email: NationalEnergyGuarantee@environment.gov.au

5 July 2018

National Energy Guarantee, Draft Detailed Design Consultation, Commonwealth Elements

Delta Electricity welcomes the opportunity to contribute to the Australian Government's deliberations on the Commonwealth elements of the National Energy Guarantee (NEG). Delta owns and operates the 1320MW Vales Point power station in NSW and has a retail licence to sell electricity to large customers. Delta has operated coal and gas fired generating plant in the National Electricity Market (NEM) since its start in 1998 and is an active participant in both the electricity and gas trading markets.

Setting and Reviewing the Electricity Emissions Target

Delta fully supports the Australian Government's proposal to set the emissions target for 2030 in line with the NEM's share of Australia's Paris commitment. As emission reductions in the electricity sector become increasingly challenging operationally, and increasingly costly to integrate into the grid, it is Delta's view that other sectors of the economy should begin to shoulder their share of the emissions reduction burden alongside the electricity industry. Setting the target level for the electricity sector consistent with its share of the Paris Agreement is consistent with sourcing emissions reductions efficiently across the economy.

Delta also supports the Australian Government's proposal to enshrine the first 10 years of targets in legislation. This approach provides additional certainty for the industry early in the life of the scheme. Certainty will be crucial in the early years of the scheme to provide a predictable transition path beyond the Renewable Energy Target. The NEM needs a reasonable period to transition to high levels of intermittent generation. A target emissions intensity level that drives emissions cuts deeper than required by the Paris Agreement will bring forward new renewable capacity that will stress the power system, particularly if conventional plant is materially displaced¹. Opportunities for deep cuts in emissions materialise past 2030 as generators assess retirement of

¹ See for example: Boston, A., Bongers, G., Byrom, S. and Staffell, I. (2017), *Managing Flexibility Whilst Decarbonising Electricity - the Australian NEM is changing*, Gamma Energy Technology P/L, Brisbane, Australia.



aging conventional plant or life extensions with different operating regimes as required for power system security and reliability.

Delta supports setting the target in tonnes per megawatt hour. This approach provides flexibility in a rapidly changing demand environment. The government has correctly noted that where absolute emissions decrease only modestly during a five-year period, the subsequent targets can be adjusted to ensure the overall emissions budget is achieved throughout the Guarantee timeframe. Delta does not see substantial risk that energy consumption will be materially higher than forecast in any given five-year period. Delta supports the Government ensuring that adjustments take into account both under and over achievement against the emissions reduction targets based on variations in demand.

Delta welcomes the confirmation that a minimum of five years of emissions intensity targets will always be known. Delta views five years as a minimum period of notification of forward targets. The electricity industry is defined by large investments of capital for generation capacity, long term fuel supply and for transmission augmentations. To facilitate informed planning and efficient investment in the sector, the government should consider extending the timeframe of minimum known emissions intensity targets beyond five years. Increasing the known target timeframe from 5 to 7-10 years would provide additional certainty to investors which could lower the cost of deploying capital. This would further decrease the cost of transitioning to a low emissions electricity industry and allow consumers and governments to allocate resources to emissions reductions in other sectors of the economy.

Delta supports the consistent approach to emissions reductions across the NEM. However, the existence of various state-based subsidies for renewable generation is a serious distortion to the NEM. Efficient investment can only result if there is limited intervention from governments. Although less than transparent, consumers and taxpayers could pay a high price for distorting locational signals between states.

Implementing the Exemption for Emissions-Intensive Trade-Exposed (EITE) Activities

Delta supports EITE exemptions aligned with the activities and processes used for the Renewable Energy Target scheme. We note that exempting EITEs will place an additional cost burden on the remaining consumers. However, the employment and economic activity undertaken by EITE entities is substantial and should not be unfairly penalised in comparison to the markets in which they compete. Driving industry off-shore would likely result in the activities being undertaken at higher emissions intensity, contributing to higher global emissions with no benefit to the Australian economy.

It will be important for the Government to ensure that the process for administering the EITE exemption does not require substantial additional administrative overhead. This is particularly true of the relationship between retailer and EITE customers. The government should make every effort to make EITE information transparent to retailers in a timely manner to ensure that retailers can calculate their liabilities and comply with the obligations under the NEG.



External Offsets

Delta supports use of ACCUs created outside the NEM to offset retailer emissions obligations. This will allow lower cost abatement opportunities to be accessed and the impact on consumer prices to be minimised. The emissions reduction fund auction results prove that low cost abatement is available within other sectors of the economy. Governments should target emissions reductions across all sectors that are in line with the 26% Paris commitment to ensure that the lowest cost abatement is accessible.

International permits similarly will be beneficial for ensuring that abatement costs are as low as possible and that consumers do not bear the burden of expensive abatement in the Australian electricity sector. Delta urges the Australian Government to commit in legislation to making high quality international offsets available for use in the sector once the agreed instruments are determined under the Paris Agreement process.

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