# Submission on target setting under the National Energy Guarantee

June 2018

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## Introduction

Environment Victoria welcomes the opportunity to submit to the Commonwealth proposals for setting electricity emissions targets under the National Energy Guarantee (the Guarantee).

Environment Victoria is an independent and not for profit organisation that has been campaigning to look after Victoria's environment since 1969. With more than 40-grassroots member groups and 150,000 individual supporters, Environment Victoria is a growing community of Victorians standing up for a safe climate, healthy rivers and a sustainable future.

The setting of the electricity emissions target is one of the most critical components of the National Energy Guarantee. How this is set and defined by the Commonwealth government will strongly influence whether the nation meets Australia's national emissions targets, whether the mechanism will boost clean energy investment, and whether future governments are able to meet the international commitments we have made or will make in the future.

This submission outlines the key issues and what should be addressed if the policy is to be effective and durable.

## The proposed emissions reductions target is a recipe for failure

Before addressing the design elements of the Guarantee, it is critical to note that the proposed electricity sector emissions reductions target from the Commonwealth is woefully inadequate. This is not unique to the Guarantee. Any national policy underpinned by the Australian government's current 2030 target of 26-28 percent below 2005 levels would not be enough to deal with global warming because:

- The national target is not consistent with the objectives of the Paris Agreement, which are to limit warming to 1.5-2$^{o}$C by the end of the century. If other countries followed Australia's lead and introduced similar emissions targets the world would warm by 3-4$^{o}$C this century.[1]

- Australia's current 2030 target is among the weakest of any advanced economy.[2] For example, meeting the government's 2030 target would still leave our per capita emissions at 14 tonnes in 2030 — much higher than other developed countries, and the highest of any G20 country other than Russia and Saudi Arabia.

- A reduction in electricity sector emissions by only 26 percent by 2030 is incompatible with emissions pathways consistent with the objectives of the Paris Agreement.[3] It is also not in line with cost effective action to reduce national emissions. This is because the electricity sector is currently the largest source of national emissions but also has many cost-effective options to lower emissions. All credible analysis to date has shown the electricity sector can and should reduce emissions faster than the national average. Failure to do so imposes much higher costs on every other sector and puts Australia's ability to meet its undertakings under the Paris Agreement and to play its part in preventing catastrophic climate change at serious risk.

## Setting electricity sector carbon budgets

Australia's current short-term emissions commitment under the Paris Agreement is not to just reduce emissions by 26-28 percent by 2030. When the Abbott government submitted its target internationally it made a commitment to translate this target into a total cumulative emissions limit, or emissions budget, for the period for 2012-30.[4] While it has not yet done this, this is not unusual as the international rules for national targets are still to be negotiated. However, the use of national carbon budgets for national targets has been a core negotiating position of the Australian government for over two decades. It was formulated under Howard government in the negotiation of the Kyoto Protocol. As such, stepping back from this commitment would be very significant backsliding on Australia's international commitments. Environment Victoria therefore supports the proposal to set a carbon budget under the Guarantee.

However, the setting of the electricity sector emissions budgets should be based on robust independent advice on the strategic role of the electricity sector in meeting Australia's short and longer-term commitments under the Paris Agreement. Under the recent review of Australia's climate policy, the Commonwealth government committed to developing a strategy that outlines how Australia will reduce emissions through to 2050 by 2020. This is in-line with the Paris process, which asks countries to submit these mid-century plans internationally by 2020. The government recently reiterated this commitment to the international community.[5]

Ideally this work should be completed in 2019. Tying the Guarantee's target setting to this process would allow for detailed modelling to be undertaken to define the electricity target in the context of action being taken in other sectors and with long-term emissions pathways in mind. This short delay to set a more appropriate sector-specific target should not undermine investor confidence. In fact, it may enhance it by showing business that the government is undertaking a predictable and considered process to setting their compliance obligations.

## Define the rules for changing the target upfront

The 'rules of the game' for setting new and changing existing targets should be defined upfront. This can support companies and investors to manage the risks and take the opportunities that will come with reducing emissions in a much more efficient way. The most recent proposal from the Commonwealth government is a backward step in this regard as there is no mention of rules for changing the 2021-30 emissions target for the electricity sector. The following elements should be included in the primary legislation that sets the electricity sector emissions target.

### A three-year notice period to change the target should be set

The notice period to change the target is particularly important and this needs to balance the need to give governments the option of strengthening targets to ensure international commitments are met while at the same time providing companies with a minimum level of certainty to manage their obligations under the Guarantee.

Setting a three-year notice period would likely be much less disruptive to industry than a five year or longer notice period, as the rate of reductions required to meet stronger targets in the future would be likely less, i.e. regular smaller adjustments instead of less regular larger adjustments to the emissions pathway.

Also the difference between three and the previously proposed five years is unlikely to materially affect long-term, 30-year-plus investments in the electricity sector. There is very little trading in the wholesale electricity spot market three years into the future. Three years notice would be sufficient to allow retailers to manage their emissions liabilities and is also sufficient for new generation to be built to meet new requirements. For example, the electricity reliability obligations proposed under the Guarantee operate on a three-year basis, and separately, a policy decision has also been made that requires electricity generators to give three years notice before shutting.[6] Both imply three years is sufficient to build new capacity in response to a change in the target.

### Explicit triggers to update the electricity sector target should be defined

In addition to the three years notice for changing the target, the Commonwealth government legislation should explicitly state that a change in Australia's international undertakings is a trigger to change the emissions trajectory. Having clarity on this point can allow for business to better plan for possible changes in policy.

### Boost investor confidence by not allowing back-sliding

Under the Paris Agreement, each new emissions reduction target that countries set must be a 'progression' from its previous target. This basically means that every five years Australia will need to set a new emissions target that is stronger than the last one.
To reflect this, the national electricity laws that establish the emissions reductions mechanism and the national legislation that defines the electricity sector target should include a provision that states that all future targets need to be stronger than the previous one. The Victorian Climate Change Act has a provision to this effect.[7] Beyond being consistent with Australia's international commitments this would boost confidence in electricity sector investment. This is because it would lessen the risk that a future government would weaken the target and destroy the value of assets that companies have built.

## How should the target be legislated?

The Commonwealth proposes that the electricity emissions targets are to be set out in a table in primary Commonwealth legislation (i.e. an Act). A more appropriate response that gives the Commonwealth more flexibility in achieving its international obligations, would be to have the targets set out in subordinate legislation, as parliamentary approval would not be required to change them.

As outlined above, Environment Victoria proposes that the rules for setting and changing targets be include in the primary legislation. Combined with this, defining the electricity sector target in subordinate legislation would provide investment certainty while ensuring the Commonwealth government as has the flexibility to strengthen the target in light of changed economic, technological and international circumstances.

## Climate effectiveness: Some other issue to watch

### How emissions intensive trade exposed (EITE) industries are treated

The Commonwealth government has so far failed to articulate a clear policy rationale for exempting EITEs. In the event exemptions are to be applied, a number of core principles should apply:

- EITEs should still play their part in national emissions reductions efforts, for example, by ensuring that any exemptions decline through time;
- Assistance to these industries should be transparent and be subject to regular independent reviews; and
- As part of these reviews, the cost and benefits to other parts of society from assistance should be recognised and managed.

### Use of offsets to meet emissions reductions targets

The Commonwealth government is considering whether and how domestic and international offsets could be used by retailers to meet their obligations under the scheme. The decision to allow the use of offsets is influenced by whether or not their inclusion reduces the incentive to invest in the transformation of the electricity sector, the credibility of the offsets used (i.e. are they delivering additional and real emissions reductions), and political economy and social policy issues like reducing any impact of the scheme on power prices. Overall, given the weakness of the currently proposed target there is no justification for the use of offsets in the scheme. The target would likely be met with little or no additional investment in the transformation of the electricity sector and the inclusion of offsets would create an additional and unnecessary level of complexity to company's investment decisions.

[1] Climate Action Tracker, Australia: https://climateactiontracker.org/countries/australia/ (accessed 1 May 2018)
[2] The Climate Institute, **2030 emissions reduction targets compared** (2015): http://www.climateinstitute.org.au/verve/_resources/2030--Emissions-Targets-Compared-Factsheet.pdf (accessed 1 May 2018)
[3] Climate Analytics, **The Finkel Review and scientific consistency with the Paris Agreement** (2017): http://climateanalytics.org/files/finkel_review_and_scientific_consistency_with_paris_agreement.pdf (accessed 1 May 2018)
[4] Government of Australia, Australia's Intended Nationally Determined Contribution to a new Climate Change Agreement (2015): http://www4.unfccc.int/submissions/INDC/Published%20Documents/Australia/1/Australias%20Intended%20Nationally%20Determined%20Contribution%20to%20a%20new%20Climate%20Change%20Agreement%20-%20August%202015.pdf (accessed 1 May 2018)
[5] Government of Australia (2018), Submission to inform the preparatory phase of the Talanoa Dialogue: https://unfccc.int/sites/default/files/resource/85_Australia%20Talanoa%20Dialogue%20Submission.pdf (accessed 3 May 2018)
[6] AEMO (2018), **Amendment (Generator three year notice of closure) Rule 2018**: https://www.aemc.gov.au/sites/default/files/2018-05/Consultation%20paper.PDF (accessed 7 June 2018)
[7] Government of Victoria (2017), **Climate Change Act 2017**: https://www.climatechange.vic.gov.au/legislation/climate-change-act-2017 (accessed 7 June 2018)