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National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements

The Major Energy Users (MEU) welcomes the opportunity to provide its views to the Commonwealth on the National Energy Guarantee (NEG), Draft Detailed Design - Commonwealth Elements, released for comment in June 2018.

The MEU has already provided responses to earlier consultation on the NEG and highlighted that its members are very large users of energy in their manufacturing processes and are energy intensive trade exposed (EITE) firms operating in Australia. This response builds on its earlier responses to aspects of the NEG.

For the same reasons that MEU members support the exemptions from costs involved in the Renewable Energy Target (RET) – and the carbon tax that applied for a period earlier in this decade – the MEU supports the same exemptions being applied to the costs inherent in the emissions leg of the NEG.

The MEU is well aware that there are some sections of the Australian community that consider there should be no exemptions from the costs of limiting carbon emissions, yet these opponents of providing any exemptions fail to recognise that imposing these costs on firms with energy intensive operations and exposed to international trade will have a severe negative impact on employment (especially in the regional areas where many MEU members operate) and the Australian economy more widely. Furthermore, while there is no global harmonised carbon pricing mechanism, the risk of “carbon leakage” is high for these industries. This is an important issue because when coupled with the higher energy costs that these industries have seen over the past few years (viz: in high wholesale electricity and gas prices and excessive energy transport costs), EITE exemption from the emission obligation is a sensible policy objective.

As EITE firms exempt from the RET, MEU members are well acquainted with processes involved with gaining exemptions from RET costs, so they support the proposed approach implicit in the Commonwealth consultation paper.

The consultation paper posits a number of questions on which stakeholder views are sought:

The Government's proposed approach to setting the initial electricity emissions targets under the Guarantee

The MEU members consider that it is the purview of Government to set policy on how Australia will comply with its international obligations, but the MEU is of the view that the implementation of the policy needs to reflect that the costs of such policy needs to be factored in such a way that it has the least impact on the economy overall and to ensure that the allocation of these costs has the smallest impact possible on those parts of the economy that are least able to manage the costs. As noted above, it has been already recognised that emissions intensive trade exposed industries are not able to absorb the costs of emissions when dealing with competitors from overseas that do not have these imposts.

The Government's proposed approach to amending targets and setting future targets under the Guarantee

The MEU notes that the policy on emissions is to achieve a percentage reduction in emissions. As was noted during the process reviewing the RET in 2014, the MEU expressed a view that with a policy set in terms of a percentage of total electricity usage, in light of the declining volume of electricity being used, there was a need to review the fixed volume target set to reflect the reduction in demand for electricity. The MEU still considers that a percentage target approach should be used as this reflects the policy.

While the MEU accepts that this approach increases uncertainty about the volume of emissions needed each year to achieve the overall target, not reviewing the target could lead to an overshooting of the emissions targets (as occurred with the RET in the early part of this decade) incurring unnecessary costs. The MEU is aware that AEMO is working to improve its forecasting ability so, as this occurs, the errors implicit in using a percentage based approach should be modest. On balance, the MEU supports there being a regular review of the targets to ensure that ultimately the target matches policy.

The MEU also notes that setting a fixed target for emission reduction each five years could result in a significant deviation from the policy objective at the end of each five year period. With this in mind, the MEU suggests that the five year target should be

set on a rolling annual basis to limit the potential for a large step change being required to be managed at the end of each five year period.

Whether the proposed approach to streamline the RET and Guarantee exemption applications minimises any regulatory burden for EITE entities.

The transactional costs for managing the exemptions for the RET are not insignificant so the MEU supports any approach which will limit transactional costs for implementing the NEG emissions liability exemptions process. The MEU considers that aligning the exemption process for the NEG with the existing process for the RET is a sensible and low cost approach and is fully supported by the MEU.

Many MEU members already use the “electricity use” method for administering their RET exemptions, so the MEU supports this approach for the NEG exemption process.

Whether Market Customers should be able to use offsets to reduce part of their emissions under the Guarantee

It is recognised that there are already many providers delivering carbon reductions at a low cost¹. These reductions are recognised through the generation of certificates (eg ACCUs). As the MEU supports a process which delivers the lowest cost for achieving emissions reductions, the MEU considers that liable entities should be able to access lower cost solutions to emissions reductions than just those delivered through the electricity market. The MEU therefore supports the use of external offsets either generated within in Australia or from overseas.

The MEU supports Market Customers being able to access offsets to fulfil their obligations under the NEG

The proposed approach to using offsets to be used for compliance under the Guarantee

The MEU is of the view that the costs to comply with emissions reductions need to be least cost. To limit access to lower cost products than are available in the NEM merely imposes higher costs on electricity consumers with little benefit. When this observation is coupled to the reality of the NEG that it is generators that generate the emissions and not the liable entities, limiting the access to non-NEM sources of emissions reductions is not in the long term interests of consumers.

The MEU supports a flexible approach which does not necessarily limit the ability of a Market Customer to utilise low cost offsets (regardless of whether they are internationally sourced or domestic as long as they are compliant) to satisfy compliance with the emissions obligation of the NEG. However, the use of overseas offsets must be balanced against the risk of “crowding out” domestically generated

¹ For example, as has been seen from the Emissions Reduction Fund process

offsets. As well, the MEU is concerned that having unrestricted access to offsets could impact investment in new renewable generation which could assist in reducing electricity prices.

With these thoughts in mind, the MEU considers that if a cap on sourcing liabilities from offsets is considered appropriate, it needs to be reflective of achieving the lowest overall cost to consumers. The Commonwealth seems to imply that a cap of 5-10% might be appropriate (see page 15). The MEU considers that if a cap is to be imposed it should be much higher than the implied levels, such that costs are kept low but investment in generation is not too severely impacted.

The Commonwealth asks the question – should a cap be a fixed quantity or a percentage? As noted above with relation to the emissions target, the MEU considers that a percentage approach provides a better outcome for consumers.

If the Commonwealth does decide that there will be a limitation of the use of offsets, then the offsets should be allocated relative to the emission reductions each liable entity is required to provide. If any other approach is utilised, it results in a bias in favour of one liable entity over another with the customers of that liable entity being subject to the cost differential with, inevitably, the liable entity passing these costs on to consumers.

The MEU also notes that it is possible that the NEM might generate more emissions reductions than is needed to meet the emissions reduction target. The MEU therefore considers that as other sections of the Australian economy will also have to meet emissions reductions targets (eg the transport industry) then the Commonwealth should look to establishing a process where generators in the electricity industry will be able to easily provide qualifying emission reduction certificates for other sectors of the economy to utilise as offsets.

We appreciate the opportunity to have provided this input to this AER monitoring project. Should you wish for amplification of any of the comments provided in this response, please contact our Public Officer (David Headberry) on 03 5962 3225 or at davidheadberry@bigpond.com.

Yours faithfully



David Headberry
Public Officer