Australian Council of Social Service

Overview of the National Energy Guarantee

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Summary of the National Energy Guarantee

The National Energy Guarantee is designed to encourage investment in clean and low emission technology in the electricity sector to reduce carbon emissions and ensure there is reliable supply of electricity.

It is a first of a kind mechanism both in its operation and integration with reliability requirements.

Like the RET and proposed CET, the obligation is on the retailer to purchase low emissions electricity (ETS and EIS the obligation is on generators to generate low emissions electricity)

Unlike ETS, EIS, CET or RET where in addition to normal trading the liable entity (retailer or generator) has to also obtain low emissions certificates (liability or credit), which are tradable. The emissions guarantee will require retailers to ensure the electricity they purchase on spot market is at or below a prescribed emissions intensity for that period.

In addition, IF there are concerns that there is not a reliable supply of electricity, the Reliability Guarantee is triggered and retailers will be required to contract "secure sufficient contracts to meet peak demand".

Its not economy wide just electricity sector

Summary of the National Energy Guarantee

NEG Mechanism

- Being designed by Energy Security Board
- Applies to NEM
- Administered through the NEL
- Agreed by COAG

Emissions Reduction Guarantee

Reliability Guarantee

Emissions Reduction Target

- Designed by Federal Gov
- Applies to NEM
- Administered through federal Gov Act
- Agreed by Fed parliament

- 2030 Target
- Process for setting targets

- Decisions about how to treat additional action
- Who is covered
- Offsets

Emissions Reduction Guarantee

- The emissions reduction requirement is an annual obligation on retailers and large customers to ensure the average emissions intensity of their load (electricity they purchase) is at or below the prescribed electricity emissions intensity target for that compliance period.
- Contracting will occur as per usual. An emissions registry will be established to allocate generator output and its associated output to a market customer’s load. AEMO administer.
- The registry will record emissions intensity for each generator. Automatically match emissions to each market customer based on the generation allocated against their load.
- To record the allocation of generation in the registry, it must be requested by one party, and approved by the counterparty.
- Market customers that do not have generation allocated for some or all their load will be assigned the ‘residual’ emissions intensity of unallocated generation in the registry.
- Compliance with the emissions reduction requirement will be assessed and reported annually, based on a financial year compliance period. AER responsible.
- Retailers can have unlimited overachievement but can only carry forward 5% of over-achievement to be used in next year.
- EITEs will be exempt. Cost flow to other consumers.

Reliability Guarantee

- AEMO will forecast out from 10 years whether the reliability standard.
- AEMO will update forecasts annually (or more frequently if there is material change)
- If a “material gap” in reliability is identified in forecast the market will be expected to act.
- If 3 years from the where a forecast gap was identified and the gap still exists then the reliability Obligation will be set to trigger.
- If the reliability requirement is triggered, then all retailers and large customers will need to assess their likely share of **system peak demand** and secure sufficient qualifying contracts, by the compliance date.
- One year from the forecast reliability gap, AEMO will again review its forecast. If a material gap persists then the AER will determine that the reliability obligation is now activated and retailers may be expected to demonstrate that they have sufficient qualifying contracts in place.
- AEMO will enable the Procurer of Last Resort safety net which will allow it to access the RERT framework to procure the remaining necessary resources to close the gap.

❑ Unlikely to be triggered. Is it needed?

Government Target setting

policy	comment	ACOSS position
Target 26% by 2030	• BAU likely to be higher than 26%. • Target is a floor and not a ceiling and can be over achieved. • Won't accelerate the transition to clean energy • Why incur costs of administering scheme if it wont go beyond BAU?	• 2030 Target should be higher, in line with Paris Agreement and energy sectors ability to transition faster Note: unlikely Coalition will shift, so mechanisms to ratchet up target important.
First 10 yrs locked in, then set every 5 years	• Earlier position had proposal for triggers to amend target	• Reinstate triggers to change target with a 3-5 yr notice period • Include a no backsliding provision like in Paris Agreement.
Greenpower is additional		• Support
Additional state action (above NEG target) limited.	• The mechanism won't specifically allow state action to be additional, possibly could be done through greepower mechanism or direct contracting by State.	• advocate for additionality 'opt in'
Offsets – • considering whether to allow offsets (both domestic and international) • Consider a cap wither physical or percentage 5-10%	• Offsets undermines transition of energy sector. • Opposed by some retailers	• ACOSS does not support inclusion of offsets (Note: would maybe 'consider' if target was significantly higher)

Politics

Pros	Cons
Implementing NEG in the NEL with bi-partisan support reduces chances its repealed at later dates	Targets are woefully inadequate and would be locked in for 10 years without mechanism to increase ambition: • Locks in higher emissions tech • Not credible to investors • Other sectors need to do more when they can't • States have net zero by 2050 targets
It can be ramped up IF the commonwealth legislation enabled it.	Consumers incur costs of a mechanisms that isn't driving emissions beyond BAU
Provides "some level of investment certainty" which could positively impact on wholesale.	Not equitable - exclusion of EITEs will transfer a costs to other consumers (unlikely at low targets)
	Still lingering issues about impact on competition, much easier for gentailers to meet their obligations.
	Not sure its most efficient scheme in terms of costs to administer

- States could agree to mechanism and assume fed parl won't pass current target proposal & a new gov might. It remains inactive until commonwealth legislation passes.

- States could insist on a trigger that requires targets to be at a certain level before NEG mechanism starts – commonwealth unlikely to support.

- States can say no to NEG mechanism until certain conditions are met. Commonwealth won't agree. No mechanism is put in place.

Thank you

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