Joint submission on the National Energy Guarantee: Commonwealth Elements

Summary of Key Recommendations

- **Establish an emissions target for 2030 and a trajectory for the NEG that is consistent with Australia's commitment to limit global warming to 1.5-2°C and commitment to reach net zero emissions economy-wide well before 2050.**
- **Ensure there a notice period to change the emissions reduction target and that it is three years not five years.**
- **Targets should be set on a rolling basis.**
- **Ensure that any change to Australia's international climate commitments triggers an update to the electricity sector's target, and that this is stated in Commonwealth legislation.**
- **Electricity emissions targets should be defined under subordinate, not primary, legislation.**
- **Insert a provision in the National Electricity Laws and national legislation that requires all future targets to be stronger than the previous target.**
- **Ensure there is no barrier to states, territories and organisations making their renewable energy investments 'additional'.**
- **Ensure that the electricity sector emissions targets are based on robust independent advice such as that of the Climate Change Authority.**
- **Ensure that governance arrangements for the electricity sector target and notice period for changes sit within Commonwealth legislation rather than National Electricity Laws.**
- **Do not provide an exclusion for emissions intensive trade exposed (EITE) industries.**
- **Do not allow retailers to use offsets to meet the emissions requirement.**
- **Ensure that third parties have access to detailed information in the emissions registry proposed by the Energy Security Board.**

Introduction

This submission outlines key issues that must be addressed if the NEG is to make a meaningful contribution to driving down carbon pollution from the energy sector. **Unless the NEG is set up to enable carbon pollution reduction consistent with 1.5-2°C and a substantial increase in renewable energy investment it is unsupportable.**

The low ambition of the Commonwealth government's 26 percent electricity emissions target, and proposed lock in of this target until 2030, is out of step with Australia's international climate change commitments and will not provide the investment signals needed to sustain growth in Australia's renewable energy industry. As proposed it could act to curb rather than incentivise new clean energy developments, exactly the opposite of what is needed.

The electricity emissions target and how it is set is one of the most critical components of the NEG. How the target is set and defined by the Commonwealth will strongly influence whether Australia meets its 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.

The currently proposed target is inadequate

The Commonwealth government's proposed electricity sector emissions reductions target is woefully inadequate. To be consistent with limiting global warming to under 1.5°C, Australia's national target would need to be 65-85% reduction on 2005 levels by 2030. Even a two-thirds probability of 2°C requires a 45-65% target for 2030.[1] Any national policy underpinned by the Australian government's current 2030 target of 26-28 percent below 2005 levels is not enough because:

- The national target is not consistent with the objectives of the Paris Agreement, which are to limit warming to 1.5-2°C by the end of the century.
- Australia's current 2030 target is among the weakest of any advanced economy.
- A reduction in electricity sector emissions by only 26 per cent by 2030 is incompatible with emissions pathways consistent with the objectives of the Paris Agreement.
- The electricity sector should do more than a pro rata share given the sector has cost effective technologies available to cut emissions.

Low electricity target results in deeply inadequate renewable energy share

The electricity sector is Australia's largest source of climate pollution. It is also a sector with excellent opportunities for climate pollution reduction. Renewable energy and storage technologies are proven, cost effective and available now to clean up the electricity sector. However, according to the Energy Security Board (ESB), under the proposed NEG renewable energy will account for only 28-36 per cent of total energy generation by 2030 (including hydro and rooftop solar). This is much less than the level of renewable energy that is necessary and possible by 2030. Recent reports have shown that "even if contracting and construction commitments to solar farms and wind farms halted from today, ongoing installations of rooftop solar should see renewables share reaching 39%

[1] http://climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/Final-report-Australias-future-emissions-reduction-targets.pdf

by 2030," and with corporate tenders it is likely renewables will exceed a 40% share by 2030.[2] That means the 26% electricity target under the NEG is set up to result in less renewable energy than business as usual.

It is our collective view that Australia should be pursuing a 100 per cent renewable energy target by 2030. There is good evidence that this target is achievable and numerous studies have determined there are no technical barriers to Australia achieving secure, reliable power from up to 100% renewable electricity.[3]

Core issues in defining the electricity target

The rules for changing the electricity target need to be clearly defined upfront. The most recent proposal from the Commonwealth government is a backward step in this regard with no mention of rules for changing the 2021-30 emissions target for the electricity sector. Establishing defined rules for changing the target will allow governments to better manage how our international commitments are met. It will also assist companies and investors with managing risks and taking advantage of opportunities that will come with reducing emissions in a much more efficient way.

Requirement: Establish an emissions target for 2030 and a trajectory for the NEG that is consistent with Australia's commitment to limit global warming to 1.5-2°C and commitment to reach net zero emissions economy-wide well before 2050.

When the Abbott government submitted its target internationally it made a commitment to translate this target into an emissions budget for the period for 2021-30[4]. This is consistent with the position that successive Australian governments have taken to national target setting since the beginning of the Kyoto Protocol negotiations in 1995. As is currently proposed, an emissions trajectory for the NEG should be set in a way that is consistent with this carbon budget approach. If emissions reductions are delayed then more rapid, deeper emissions cuts will be required later. If the target is initially less ambitious than a linear reduction from 2020 then other sectors will need to do more to meet Australia's overall national target making achieving it more difficult and expensive.

The emissions guarantee should include a floor on annual emissions reduction from the electricity sector, setting a minimum acceptable level consistent with Australia's climate change commitments. Even if other elements of the NEG are agreed, the mechanism should not be activated until it is set to deliver substantial emissions reductions, including an annual floor.

Additionally, unless the national emissions reduction target for the electricity sector delivers more renewable energy than the aggregate of state and territory renewable energy targets, the NEG will not be supporting additional emissions reductions.

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[2] Green Energy Markets, Renewable Energy Index, June 2018

[3] AECOM 2012; AEMO 2013; Elliston et al 2013; Lenzen et al 2016; Teske et al 2016; CSIRO 2016; Finkel 2017; Stocks et al 2017; University of Melbourne 2017.

[4] https://www.environment.gov.au/system/files/resources/9437fe27-64f4-4d16-b3f1-4e03c2f7b0d7/files/fact-sheet-tracking-emissions.pdf

Notice period to change the target

Requirements:

- ***Ensure there is a notice period to change the emissions reduction target and that it is three years not five years.***
- ***Targets should be set on a rolling basis.***
- ***Any change to Australia's international climate commitments should trigger an update to the electricity sector's target, and this should be stated in Commonwealth legislation.***
- ***Electricity emissions targets should be defined under subordinate, not primary, legislation.***

The notice period to change the target is particularly important. It is concerning that the Commonwealth government has removed all references to this in its most recent proposals on electricity target setting. Previously the Commonwealth proposed that five years notice was needed to change the target. Even under the five-year notice scenario, if notice were given in 2019 emissions reductions in the second half of the decade would be more challenging, disruptive and expensive than if the target were raised earlier. With a three-year notice period the rate of reductions required are within the range achieved by other countries in their electricity sectors in recent years. Others such as the Grattan Institute have also proposed a 3-year rolling notice period as an appropriate balance between the need to be flexible, and to provide certainty for investors.[5]

Three years notice would be sufficient to allow retailers to manage their emissions liabilities and it is also sufficient for new generation to be built to meet new requirements. The difference between three and 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.

Target changes should be made on a rolling basis so that they are reviewed and can be changed annually, maintaining the three-year notice period.

In addition, the Commonwealth government legislation should explicitly state that a change in Australia's international undertakings is a trigger to change the emissions trajectory and that the targets themselves are set under the subordinate, not primary, target setting legislation.

Boost investor confidence by not allowing back-sliding

Requirements:

- ***Insert a provision in the National Electricity Laws and national legislation that requires all future targets to be stronger than the previous target.***
- ***Ensure there is no barrier to states, territories and organisations making their renewable energy investments 'additional' to the NEG.***

Under the Paris Agreement, each new emissions reduction target that countries set must be a "progression" from its previous target. This means that every five years Australia will need to set a

[5]http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Tony%20Wood%20Grattan%20Institute%20response%20to%20Energy%20Guarantee%20consultation.pdf

new emissions target that is stronger than the last one. To reflect this, a provision should be inserted in the national legislation and the National Electricity Law that requires all future targets to be stronger than the previous one. A 'no backsliding' provision is necessary to be consistent with Australia's international commitments and to 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 already built.

Further, states, territories and organisations should not be stopped from making their renewable energy investments additional to the NEG if they choose to do so. Provisions that allow for 'additionality' should be clearly spelled out in the design of the NEG.

Setting Electricity Sector Emissions Targets
Requirement: Ensure that the electricity sector emissions targets are based on robust independent advice such as that of the Climate Change Authority
The setting of the electricity sector emissions targets 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. The Climate Change Authority (CCA), established to provide independent expert advice to government, would be an appropriate organisation to provide input into the development of Australia's mid-century strategy under the Paris Agreement. However, the legislation that defines the remit of the Climate Change Authority would need to be updated to reinstate the requirement to consider carbon budgets and other matters that were lost with the repeal of the Clean Energy Future legislation.

Governance of the electricity sector target
Requirement: Ensure that governance arrangements for the electricity sector target and notice period for changes sit within Commonwealth legislation rather than National Electricity Laws.
As is currently proposed, the NEG's emissions target for the electricity sector should be set by the Commonwealth. However, how this and other issues are translated in the NEG is very important. The National Electricity Laws should not include the specific way the national target is translated into the electricity sector target and the notice period for changes to the electricity sector target. The only exception is the 'no backsliding' provision (as covered above). The Commonwealth government should not be constrained in its ability to respond with greater ambition to changes in international circumstances and the rest of the economy.

Emissions intensive trade exposed (EITE) industries
Requirement: Do not provide an exclusion for emissions intensive trade exposed (EITE) industries.
An acceptable case has not been made for exclusion of EITE industries, which are big energy users and have an important role to play in national emissions reductions. Industries actively preparing for a lower emissions future will likely be more competitive as most countries around the world implement pollution reduction policies to fulfil their Paris Agreement commitments. This is also a fairness issue—any exemption enjoyed by EITE industries means other business and households need to do more to meet Australia's emissions targets. Given modelling of the NEG indicates the policy would reduce costs, it is not clear what the reasons are for EITE industries to be excluded.

No use of offsets
***Requirement: Retailers should not be able to use offsets as a flexible option to meet the emissions requirement**.*
There is no justification for the use of offsets in the scheme, especially given the weakness of the currently proposed target. An overarching objective of the NEG is to support the energy market to be robust and reliable as it transitions to a clean future. A key part of how it must do this is by incentivising investment in clean generation and demand management. Offsets undermine this incentive.

The current target would likely be met with little or no additional investment in transitioning the electricity sector. Analysis of the current pipeline of renewable energy projects in Australia shows that "by 2020 renewable energy will provide a third of power in the National Electricity Market…and that the National Energy Guarantee is unlikely to make any difference to power station investment or emissions unless the emission target is strengthened."[6] Allowing the use of offsets would only add to this problem by undermining incentives for investment. Use of offsets would also create an additional and unnecessary level of complexity to companies' investment decisions.

Transparency to build a culture of compliance
Requirement: Third parties should have access to detailed information in the emissions registry
The Energy Security Board has proposed an emissions registry to provide the necessary infrastructure to facilitate compliance with the emissions reduction requirement under the NEG. It allows energy retailers and some larger energy users to be allocated a share of an electricity generator's output and its associated emissions. However, the Energy Security Board are currently proposing that the registry will only be accessible to these market customers and electricity generators. This does not allow third parties to access the registry. This will undermine public confidence in the mechanism, limit external scrutiny and not facilitate the efficient operation of the NEG (hence increase costs to consumers).

[6] Green Energy Markets, Renewable Energy Index, May 2018.