

ACOSS Submission to National Energy Guarantee Draft Detailed Design for Commonwealth Elements



July 2018

Supported by



Who we are

ACOSS is a national voice for the needs of people experiencing poverty, disadvantage and inequality and the peak body for the community services and welfare sector.

Our vision is for a fair, inclusive and sustainable Australia where all individuals and communities can participate in and benefit from social and economic life.

What we do

ACOSS leads and supports initiatives within the community services and welfare sector and acts as an independent non-party political voice.

By drawing on the direct experiences of people affected by poverty and inequality and the expertise of its diverse member base, ACOSS develops and promotes socially and economically responsible public policy and action by government, community and business.

ACOSS would like to thank members of the ACOSS Climate and Energy Policy Network for input and guidance into this submission. ACOSS takes responsibility for final views and recommendations.

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1. Summary

ACOSS welcomes the opportunity to make a submission to the Australian Government's June 2018 consultation paper on the draft detailed design of the National Energy Guarantee (NEG). ACOSS is participating in this inquiry representing the interests of people on low incomes and those experiencing the impacts of poverty and disadvantage in Australia, as well as our role as the national peak body for the community services sector.

The primary purpose of the NEG is to reduce emissions in the electricity sector. It also seeks to support efforts to address system reliability and electricity affordability.

ACOSS supports the aims of the NEG. Climate change is a social justice and equity issue that urgently needs to be addressed. People on low incomes and experiencing disadvantage will suffer most from climate change impacts as they are least able to cope, adapt and recover. A mechanism is therefore needed to reduce Australia's emissions and transition to a clean economy in line with the goals of the Paris Agreement to limit global warming to well below 2 degrees and pursue a limit of 1.5 degrees. The transition should be achieved in an affordable, equitable and inclusive manner, to ensure that low-income and disadvantaged households are not left behind nor pay disproportionately more for the transition.

Many of ACOSS's concerns about the NEG and its operation remain with the Australian Government's design elements, which we have outlined below. These concerns go to equity and affordability issues for low-income and disadvantaged households, as well as the need to do all we can to reduce greenhouse gas emissions in order to avoid the worst impacts of climate change on current and future generations.

To help evaluate the effectiveness of any emissions reductions mechanism's ability to protect people on low incomes or experiencing disadvantage, ACOSS in consultation with a range of members has developed a set of principles outlined in Appendix 1. We have used these principles to judge the effectiveness of the NEG and in responding to the consultation paper questions.

Before addressing the detail of the Government's discussion paper, it's important to emphasise that more needs to be done to address energy affordability especially for those experiencing energy poverty. ACOSS remains concerned that not enough is being done to relieve energy stress for low-income and disadvantaged households. We acknowledge and welcome the range of activities underway to begin to make energy more affordable and address the energy stress, including the implementation the Finkel recommendations, abolition of limited merits review in network pricing, electricity retail reform, the ACCC electricity supply price inquiry, and now the NEG.

However, while many of these measures underway aim to put downward pressure on electricity prices they will not be adequate enough to alleviate the energy stress facing the more than 3 million people living on low incomes and experiencing disadvantage. This is because, it's **not only the price of electricity that causes energy poverty, it's also the size of the bill and a household's capacity to pay**. Factors such as energy efficiency of your home, whether you rent, your capacity to generate your own energy, level of income, access to concessions, medical needs, size of household, and other financial stressors such as housing costs, all contribute to create energy stress.

Delivering affordable clean energy will also require non-energy market solutions as well as solutions across the whole supply chain, and federal and state government leadership recognising that people

cannot be left behind. We urge the Australian Government and COAG to turn their attention to these issues.

Recommendations

Recommendation 1: Significantly increase the proposed 2030 emissions reduction target in line with the electricity sector's ability to decarbonise faster than other sectors and with what Australia should be doing to contribute to achieving the Paris Agreement [climate change] goals.

Recommendation 2: Set electricity emission reduction targets every 5 years, including setting 2025 and 2030 targets now.

Recommendation 3: Allow a rolling five year notice period for changes to emissions reduction target.

Recommendation 4: Mandate that no backsliding is allowed on emissions reduction targets.

Recommendation 5: Enable State renewable energy and emissions target to be additional to the national electricity emissions reduction target on an 'opt in' basis.

Recommendation 6: Do not allow EITE exemption from the emissions obligation.

Recommendation 7: Do not allow external offsets to be used to meet emissions requirement in the electricity sector.

2. Setting and reviewing the electricity emissions target

2.1. Level of emissions reduction target

Australia should do all it can to protect its citizens from more dangerous climate change, and reduce cost burden on future generations. ACOSS is concerned the slated emissions reduction target is not adequate, and will not deliver the electricity sector's fair contribution to the emissions reductions needed to achieve goals of Paris Agreement.

In addition, a target set too low will:

- impose avoidable costs if investors do not see the package as credible and consistent with the Paris Agreement;
- fail to provide an investment signal to meet scheduled and unscheduled coal retirement, leading to further cost and reliability issues;
- lead to high costs of abatement in other sectors; and
- do less than business as usual, incurring administrative costs with no emissions reduction gains.

According to international analysis Climate Action Tracker, Australia's current economy wide target of 26-28% is among the weakest of any advanced economy.¹ The Independent Climate Change

¹ <https://climateactiontracker.org/countries/australia/>

Authority had previously recommended a 2030 target of at least 45% below 2005 levels to be consistent with limiting warming by 2 degree C.² The Climate Institute and WWF had estimated to be more consistent with the Paris Agreement, Australia would need to set economy wide targets of at least 65% reduction by 2030.³

To meet the government's 2030 economy wide emissions reduction targets of 26-28%, analysis have argued that the electricity sector will need to do the heavy lifting, because of the electricity's sectors high emissions profile, access to clean technology and inability of other sectors to reduce their emissions at the same rate. Recent analysis shows if the electricity sector reduces emissions by only 26 percent by 2030, Australia would overshoot its current national target by around 700 million tonnes.⁴ This is more than three times the amount of carbon pollution that the electricity sector emitted in 2017.

The electricity sector has more capacity to reduce emissions than other sectors because it has affordable, clean deployable technology available now. New wind and solar with firming technology are cheaper to build than new coal and gas power.⁵

The Finkel Review recommended the electricity sector should aim for at least 42% renewable energy by 2030. Other independent modelling has found that penetration of renewable energy can be much higher, for example the Institute of Sustainable Futures found the NEM could achieve 100% renewable energy by 2035.⁶

Other sectors, such as agriculture and some industrial process, are further behind in their ability to transition and there are currently no plans to facilitate emissions reductions in these sectors. A 26% by 2030 target for the electricity sector will place a greater burden and cost on other sectors which will have flow through effect to people and communities. Energy analysts Reputex for example has estimated that the carbon price will double to \$35/t in 2030 for industrial sectors.⁷

² Climate Change Authority (2015) Australia's Climate Policy Options. <http://climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/SpecialReport2/Options%20paper%20Final.pdf>

³ The Climate Institute (http://climateinstitute.org.au/verve/resources/National_Agenda_FINAL23082016.pdf) and WWF-Australia (<http://www.climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/submissions/2015/WWF%20Australia.pdf>) estimate that to contribute its fair share to limit warming to 1.5°C, Australia would need to reduce emissions by 45 per cent on 2005 levels by 2025, 65 per cent by 2030 and net zero emissions soon after 2040.

⁴ Environment Victoria

⁵ Recent analysis from Bloomberg (<http://bit.ly/2FXIPK6>) Reputex (<http://bit.ly/2mCNitT>) the Centre for International Economics (CIE) (<http://bit.ly/2oQu3fy>) and the gentailer AGL (<http://bit.ly/2oQu3fy>) found that for a new energy generation build, renewable energy (wind and large scale solar pv) is now cheaper than gas and coal. Reputex and AGL found this is still the case with storage and/or firming capacity added.

⁶ ISF (2016) 100% Renewable Energy for Australia: Decarbonising Australia's Energy Sector Within One Generation. https://www.uts.edu.au/sites/default/files/article/downloads/ISF_100%25_Australian_Renewable_Energy_Report.pdf

⁷ Reputex (2018) Carbon Price may double to \$35 ton in 2030 for Industrial sectors <https://www.reputex.com/research-insights/carbon-price-may-double-to-35t-in-2030-for-industrial-sectors/>

The Investor Group on Climate Change who represents Australia's largest superannuation funds, in their submission to the ESB in March 2018, argued there may be additional and finance related costs if investors do not see the package as credible and consistent with the Paris Agreement.⁸

Energy analysts have argued that the 26% target will be exceeded without the NEG. A report by Green Energy Markets in their latest Renewable Energy Index, has found there are enough renewables currently being built to meet the targets of the proposed National Energy Guarantee, even before it is put in place. The report finds that Australia will end up with 33 per cent renewables by 2020, will likely get to 40 per cent by 2030, and has enough in the pipeline to reach 85 per cent.⁹ Similarly research by Reputex in May 2018, examining the impact of the State renewable energy schemes found that the State schemes on their own are likely to exceed the National Energy Guarantee market.¹⁰ ACOSS is concerned that consumers would bear the costs of administration of the National Energy Guarantee for no benefit in achieving additional emissions reductions.

Further, if the electricity sector target is too low it could lock in technologies that make it harder and more costly to achieve more ambitious emission reduction targets in the future. As future federal and state governments seek to achieve higher emissions reduction, the system will be faced with stranded assets and a more costly transition. The cost impact of setting high emission standards now on future emission reduction trajectory should be considered in the future modelling of the NEG.

Recommendation 1: Significantly increase the proposed 2030 emissions reduction target in line with the electricity sector's ability to decarbonise faster than other sectors and with what Australia should be doing to contribute to achieving the Paris Agreement [climate change] goals.

2.2. Timing, process and adjustments for setting electricity emissions targets

In the Government's previous discussion paper it included a mechanism that would enable targets to be set and changed subject to a five year notice period. In this most recent discussion paper, this mechanism appears to have been removed resulting in the 2030 target being locked in and unable to be changed.

ACOSS notes that under the Paris Agreement, countries' targets can be changed at any time outside of the 5 year review periods. ACOSS would be concerned that if a future Australian Government increased its economy wide commitments to the Paris Agreement (noting it would be an increase as the Paris Agreement prevents commitments being reduced) that there would be no ability to reflect this change in the energy sector targets. Nor would there be an ability to change the target in response to changes in technology, science and community sentiment.

ACOSS supports setting future electricity targets every five years to build ambition over time (as per the Paris Agreement). Consistent with this view, ACOSS advocates for setting a 2025 target now as

⁸ This concern was raised by the Investor Group on Climate Change who represents Australia's largest superannuation funds, in their submission to the ESB in March 2018 <https://igcc.org.au/wp-content/uploads/2016/04/IGCC-ESB-NEG-Submission-2018-pdf.pdf>

⁹ <https://reneweconomy.com.au/how-australia-will-get-to-33-renewable-electricity-by-2020-2030/>

¹⁰ <https://www.reputex.com/research-insights/modelling-the-interaction-between-the-neg-and-state-ret-schemes/>

well as a 2030 target. This would enable more ambitious targets to be set post 2025 if emissions reductions are on track to exceed 2030 targets.

Consistent with the Paris Agreement, ACOSS also advocates for a ‘no backsliding’ clause in the legislation, which stipulates emissions reductions targets could only stay the same or be revised up, and cannot go backwards.

Recommendation 2: Set electricity emission reduction targets every 5 years, including setting 2025 and 2030 targets now.

Recommendation 3: Allow a rolling five year notice period for changes to emissions reduction target.

Recommendation 4: Mandate that no backsliding is allowed on emissions reduction targets.

2.3. Geographical neutrality – interaction with State renewable energy targets and national electricity emissions targets

The consultation paper proposes that NEG is geographically neutral, which means that any additional renewable energy generation made as part of a State-based policy measure to meet a State-based renewable energy or emissions reduction target will not be ‘additional’ to the national emissions reduction target.

We note a number of the States’ renewable energy and emissions reduction targets are more consistent with achieving the Paris Agreement goals to limit global warming to well below 2 degrees and pursue a 1.5 degree limit. ACOSS’s preference would be for States to negotiate for the national target to be more ambitious. In the absence of the ability to negotiate stronger national targets, ACOSS would support State-based emissions reduction policy measures (which should be implemented in a way that minimises costs for low-income and disadvantaged households and in line with ACOSS principles outlined in box 1) to be additional to the national emissions reduction target.

Recommendation 5: Enable State renewable energy and emissions target to be additional to the national electricity emissions reduction target on an ‘opt in’ basis.

3. Treatment of EITE activities

ACOSS is concerned by the proposal to exempt Energy Intensive Trade Exposed Industry (EITEs) from the emissions reduction obligation. EITEs were originally exempted from the Renewable Energy Target (RET) because of the increased costs the RET obligation had on electricity prices. This EITE exemption has led to other consumers and households paying more for their electricity, including low-income and disadvantaged households, who are least able to pay.

The NEG would purportedly put downward pressure on wholesale price and purportedly have minimal transaction cost, so it is unclear why EITEs need to be exempted.

In recent public consultations members of the ESB have stated that there will be a cost transfer to other sectors as a result of EITEs being exempted. There has been no publicly available modelling or analysis to support the need for the exemption or the consequences of the exemption.

Without further analysis or modelling to provide evidence for the need for the exemption and the impacts of the exemption, ACROSS does not support EITE exemption from the emissions obligation.

Recommendation 6: Do not allow EITE exemption from the emissions obligation.

4. External offsets

Without further analysis and modelling, the impact of offsets on affordability is unclear. In early years offsets *may* result in slightly cheaper electricity, especially under more ambitious target, but as demand for offsets increases, they will become more costly. Meanwhile, as renewables become cheaper over time, offsets will be less appealing. Further any use of offsets would result in less renewable energy in the system, which could impact negatively on wholesale prices.

ACROSS is concerned that the ability to purchase offsets would further undermine the contribution of the electricity sector in the economy-wide transition to achieve global goals and avoid more dangerous climate change. While a case can be made for the use of quality offsets in some other sectors where low/zero emissions technology is still costly or unavailable, the electricity sector has affordable (wind and solar with firming capacity is now cheaper than new build coal or gas) and deployable technology and will play a critical role in Australia's transition to a clean economy.

If short-term emissions targets for the electricity sector were significantly increased there may be a case for offsets. ACROSS does not support the use of offsets in as currently proposed for the electricity sector.

Recommendation 7: Do not allow external offsets to be used to meet emissions requirement in the electricity sector.

Appendix 1 – ACROSS key principles in designing an emissions reduction mechanism for the electricity sector

An emissions reduction mechanism:

- Must be credible, scalable and durable, in line with the goals of the Paris Agreement to limiting warming to well below 2 degrees and pursue a limit of 1.5 degrees C (The adherence to Paris Agreement trajectory is important to reduce cost on future generations)
- It should contribute to low-income and disadvantaged households being better off with lower costs and safer climate.
- It should be effective and efficient including:
 - Least cost;
 - Facilitate well-functioning, open and low cost energy market (i.e. does not lead to market distortion, barriers to entry, market concentration and over investment);
 - Efficient and transparent pass through of costs.
- It should be fair and equitable.
- Governments should collectively carry the costs of the mechanism. Where this is not the case, scheme costs should be allocated equitably and measures put in place to offset disproportionate costs to people on low incomes and experiencing disadvantage (because low-income and disadvantage households pay disproportionately more when costs are smeared across bills).
- It should provide a degree of certainty to support a just and managed transition for workers and communities affected by the transition from fossil fuels to clean energy.
- The energy sector can and should transition faster. Emissions reductions should come from within the electricity sector, without use of offsets.
- Complementary measures should be introduced to further address other parts of the quadrangle with respect to affordability, reliability/security, and a just transition.
- Not all members of the community have the capacity or inclination to engage in the energy market, and should not be penalised for not doing so.
- Community interests, in particular those on low-income and experiencing disadvantage, should be actively engaged or represented in the design of the mechanism.