



NATIONAL ENERGY GUARANTEE

Draft detailed design
consultation paper

July 2018

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1. Executive summary

Stanwell welcomes the opportunity to respond to the Commonwealth Government's National Energy Guarantee (NEG) draft detailed design for consultation (the consultation paper).

Stanwell notes that while the consultation for the Energy Security Board's (ESBs) draft detailed design is occurring separately, elements of each paper affect the other. While the Government's consultation paper is addressed to the emissions obligation it is the integration of reliability and emissions obligations which is expected to provide investment certainty and regulatory comfort to market design. Accordingly this response is heavily informed by the ESB process in relation to both NEG obligations.

Stanwell considers that where possible the scheme design should be simple, transparent and accurate rather than complex, opaque and precise. This paper includes suggestions around exemptions and target setting with this framework in mind.

Stanwell support the proposals in the consultation paper given the policy decisions that have been made.

Stanwell welcomes the opportunity to further discuss this submission. Please contact Luke Van Boeckel on (07) 3228 4529 or luke.vanboeckel@stanwell.com.

Stanwell is a member of the Australian Energy Council and supports the submission being made by that body. This submission contains the views of Stanwell Corporation Limited in relation to the NEG design information provided to date and should not be construed as being indicative of Queensland Government Policy.

2. Setting and reviewing the electricity emissions target

Setting the emission reduction target

Stanwell acknowledges that the setting of emissions limits for the NEM forms part of the Commonwealth Government's commitment under the Paris Agreement. Stanwell notes the Government's consistent stated intention for the NEM emissions limits to reflect a 26 per cent reduction from 2005 levels by 2030. We refer to a 26 per cent reduction throughout this submission for simplicity.

This submission also adopts "electricity emissions targets" as a description for the emissions caps proposed under this scheme.

Stanwell supports the use of a "Carbon budget" for the 2021 to 2030 period.

Form of the emissions target

Stanwell supports the proposal to express the electricity emissions targets in terms of emissions intensity (t/MWh) as this is the most transparent measure to be assessed by potential investors. This is particularly important as the NEG is a scheme designed to promote efficient and sufficient investment in electricity resources.

Stanwell notes that the Government proposes to use a load forecast when determining the electricity emissions targets. Stanwell understands this to mean the 26 per cent reduction will reflect

$$\text{Emissions Intensity} = \frac{\text{Emissions}_{\text{Total}}}{\text{Load}_{\text{Total}}}$$

Stanwell seeks clarification on how the target is proposed to be expressed in legislation with specific respect to the exemptions for Emissions Intensive Trade Exposed industries (EITEs). The consultation paper indicates that "*The projected level of demand would be consistent with the way the ESB determines the retail load covered by the emissions requirement of the Guarantee in its design*"¹. This would indicate that EITE volume is removed from the load forecast creating a higher effective reduction than the headline reduction.

$$\text{Emissions Intensity} = \frac{\text{Emissions}_{\text{Total}}}{\text{Load}_{\text{Total}} - \text{Load}_{\text{EITE}}}$$

¹ Consultation paper page 6

Stanwell supports this latter approach noting that it allows for a much simpler scheme than that proposed by the ESB in its June consultation paper. That scheme requires an ex-post uplift of non-EITE load in an attempt to make the scheme balance - an approach which has two drawbacks.

1. Any administrative scheme overlayed on a complex physical environment such as the NEM will have small inherent imbalances. These imbalances arise from simple aspects such as rounding and are immaterial in most schemes as they only apply to a subset of the market. However the NEG applies to all generation and load, so rounding each retailer's liability and each generator's output (to a whole MWh for example) will create small discrepancies between available supply and liable demand.

Accounting for EITE exemptions (using forecast volumes) up front allows those volumes to be simply put aside in the operational environment and enables this non-liable volume to absorb any imbalances in the scheme.

2. The ESB proposed methodology creates a complex and opaque situation which retailers will need to describe to customers. Under the proposed ESB design, a retailer with an average 10MW load² would have to acquire an equivalent of 12.5MW of generation rights (assuming EITE is 20 per cent of forecast total energy demand) for their customer at no greater than the legislated intensity. Importantly the uplift factor is not proposed to be known until after consumption has occurred. If this acquisition has a non-zero cost, the customer is likely to feel aggrieved at the apparent over-purchase by the retailer and ultimately this dissatisfaction will lead to calls for market reform.

By contrast if the higher effective target is legislated then the retailer need only acquire 10MW equivalent of generation for their customers creating a simple, transparent message to the consumer.

² The proposed 50 GWh exemption adds further complexity and is ignored in this example

Accuracy is more important than precision in designing a working scheme

Stanwell consider that accuracy is more important than precision in designing this scheme. The specific level of achievement in any single year is less important than achieving the aim of the scheme over time.

Using the forecast EITE load to perform the uplift calculation will create a similar level of precision as using a forecast of all load when setting the targets. If the EITE forecast is incorrect it will be incorrect in both the total and EITE forecasts.

In contrast to the concerns over the accuracy of the EITE forecast cited in the ESB consultation paper, Stanwell considers that the EITE component of the load forecast to be used is likely to be relatively predictable compared to non-EITE load.

Stanwell supports the limited use of carry-forward and deferral in relation to compliance and will address this in detail in our ESB submission.

Forecasts and adjustment to the target

Stanwell supports the view that changing targets based on revised demand forecasts may create uncertainty. Indeed it would undermine the benefits of using an emissions intensity measure for the NEM.

Because the targets are proposed to be relatively short term (five-10 years ahead), Stanwell considers that any changes in market conditions can be considered during the subsequent process for setting targets. This does not mean that there needs to be a formulaic accounting for the differences, since many other drivers are likely to be more significant in determining those future targets.

Additionally, with a likely commitment under the Paris agreement to a reduction of Carbon emissions in the order of 75 to 95 per cent by 2050, emissions from the covered portion of the electricity sector are likely to be required to be at or near zero. With the destination relatively well known, the route ahead can be altered as necessary.

Timing and process for setting electricity emissions targets

Stanwell supports the proposal to have at least five years and generally no more than 10 years of targets in place at all times under the guarantee. Investors and financiers are likely to apply more conservative settings if a shorter timeframe is used, particularly where there are significant differences between the stated ambitions of the major political parties.

Stanwell also considers that the mechanism should provide some guidance about the potential range of future targets. This could range from a basic framework such as

- Targets in any year may be no higher than in any preceding year, when expressed in t/MWh; and
- Effective targets on covered load may not exceed a 100 per cent reduction (on 2005 levels).

A more prescriptive framework specifying maximum and minimum changes in a given target extension period could also be used. The more specific the framework the less risk premium that investors and financiers are likely to apply – assuming targets are seen to be left unchanged once set.

Geographic neutrality

Stanwell support the proposal to have regional resolution to the reliability obligation and a whole-of-NEM granularity to the emissions obligation.

3. EITE exemptions

Where exemptions are implemented for EITE loads, Stanwell supports the proposal to retain the Clean Energy Regulator (CER) as the administering body. Stanwell also supports the proposal to use the RET frameworks where possible noting that some adjustments may be necessary in relation to the different designs of the schemes.

Stanwell considers that the form of any exemption must be such that the EITE volume can be identified accurately in line with AEMO settlement timing (including revisions).

