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The Energy Security Board

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## **Submission on the Energy Security Board Retail Technical Working Group Exempt load – Emissions Reduction Requirement Issues Paper**

Thank you for providing the opportunity to comment on the Exempt Load issues paper.

As with all of the COAG ESB documents to date, the issue of the legal allocation of emissions to end use customers has been ignored. This is unacceptable.

The EITEI customers that decide to use the exemption will be contracting for electricity where the GHG emissions are known. Just because they have the exemption to purchase dirtier more polluting electricity, does not mean that they should avoid being allocated those scope 2 emissions in law, for reporting under the NGER Framework and for being accountable to their stakeholders.

For too long, large polluting businesses with EITEI exemptions that have not contributed (in part or full) to the RET or the former carbon pricing system, have been able to claim and report lower emissions due to the NGER framework allocating average grid intensity to all customers. EITEIs have had far too many free rides and should now be accountable for their purchasing choices in their reporting and claims. They are not paying extra, so they should be prepared to be accountable.

The COAG ESB and Federal Government need to be open and transparent about their intentions to reform the scope 2 accounting mechanism of the National Greenhouse and Energy Reporting Framework. The NEG through its contractual accounting approach to the Retailer and to large end use customers like the EITEIs, should simply ensure that the contractual accounting is extended to all end use customers.

Extending the contractual GHG accounting to all end use customers will mean that:

- End use customers large and small that buy high GHG emissions electricity or buy from a high GHG emissions retailer should report and be socially accountable for high scope 2 GHG emissions
- Customers that choose a lower GHG emissions electricity retailer should be legally allocated those lower scope 2 GHG emissions
- Customers that buy accredited GreenPower should be legally allocated zero scope 2 GHG emissions
- Retailers should be able to compete on the GHG intensity of their products.

- Competition and transparency of the electricity market will be greatly improved compared to the current mess where there is no legislated economy wide GHG or renewables allocation framework for end users. Multiple claims for renewable energy, double and triple counting of avoided emissions and free riding on emissions reduction are completely undermining fair market principles.

## Need For a Constraint?

there appears to be no current need to apply an emissions constraint as the renewable energy projects in the pipeline and forecast growth suggest that emissions will reduce by more than the targets of the current government in a business as usual scenario. The emissions constraint should therefore be deferred until there is a properly quantified emissions reduction objective that would drive greater reduction than business as usual.

Why is the government looking to set an emissions constraint where business as usual without a constraint will reduce emissions by more than the target that the Government is proposing?

## How the EITE exemptions are factored into the calculation of a retailer's emissions intensity

Noting that any emissions constraint below business as usual serves no purpose, and that some EITEI business may not even use the constraint exemption, if the government persists to force the constraint into the market then it must preserve the integrity of emissions allocation to end use customers and ensure credible GHG accounting.

## Approach 1: Load and emissions exemption method

*“First, the load and emissions used to determine the retailer's emissions intensity could be reduced by the amount associated with supplying EITE load, such that the retailer needs to meet the emissions intensity target for a compliance year for its non-EITE load”*

**This approach would only be supported where there are standards for retailer reporting of the GHG intensity of their sales to each different group of customer,** including the EITEI customers, commercial and residential customers purchasing electricity from the retailer's pooled emissions electricity, and GreenPower customers. This is necessary to preserve market transparency so that a retailer selling cleaner products to one part of its customer base cannot hide that they are selling much dirtier electricity to another part of its customer base.

*“Alternatively, a retailer's EITE load could be deemed to have met the emissions intensity target by adjusting the retailer's aggregate emissions intensity for the proportion of EITE load it has. This could address the issues above about balancing supply and demand in the registry because the retailer still needs to allocate output within the registry to cover its EITE load. This could preserve the incentive for retailers to contract for low emissions generation even for its EITE load”*

**This approach is not supported (indeed it is flatly rejected)** for the following reasons:

- It fatally compromises the integrity of GHG accounting and allocation.
- An EITEI that purchases more GHG intensive electricity has not met any target that they are exempt from achieving. The Scope 2 GHG emissions relating to their purchasing choice should always be allocated to the end use EITEI customer for

NGER reporting, for their public reporting and their transparency and accountability to all stakeholders.

- It would be completely unfair to increase the GHG emissions obligation to other end use consumers of the same retailer.
- Whilst there should be transparency that a retailer is providing more GHG intensive electricity to EITEI customers and may not be able to compete as a greener retailer compared with others in the market, this should not mean that those other customers are required to subsidise the EITEI with lower emissions.

## Approach 2: load spreading method

*The second broad approach is to spread exempt EITE load across all non-EITE retailer load. This method does not require any assumption about the emissions intensity of EITE load. Under this approach, each retailer's total load is first reduced by the EITE load it supplies in a compliance year (or potentially in the previous year's compliance year). Then, each MWh of all retailers' non-EITE loads are scaled up, so that retailers' non-EITE loads are equal to total load in aggregate. This way, the obligation to meet the emissions intensity target for the EITE load is placed on non-EITE load instead, and there is no requirement for the Commonwealth to adjust targets in respect of EITE loads. However, this method involves challenging timing issues: retailers do not know EITE load in advance. A way of ensuring that any scaling up of non-EITE load occurs in a predictable and timely way would be required.*

**This is the preferred approach** should the Government decide to place an emissions constraint on the market. Again, I argue that there is no justification to apply an emissions constraint which is below the business as usual projections of what the market will already deliver.

The approach spreads the burden across all non EITEI consumers rather than those within a single retailer.

The EITEI companies should still be allocated the scope 2 GHG emissions that relate to their purchasing choice. Those other pool customers choosing lower emission retailers, and GreenPower customers should rightly be able to claim their lower emissions and apply their social licence pressure to companies that have high scope 2 electricity contracts.

## Interdependencies with other elements of the Guarantee



The success of every element of the NEG is dependent on integration with and reform of the National Greenhouse and Energy Reporting Framework. NGER must provide the legal rules in which the NEG Registry will operate.

The contractual GHG accounting approach needs to replace the current physical accounting method used in the NGER Technical Guidelines and Determination. There needs to be just one system that legally allocates GHG emissions to electricity consumers in accordance with

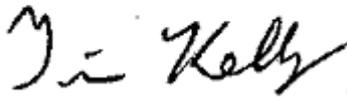
their purchasing choices, and one system that legally allocates use of renewable electricity to customers to ensure that the current double counting and confusion that has reached farcical proportions, is stopped.

(see my other submissions to the NEG and to the NEG Detailed Design for further explanation on this)

<http://coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Tim%20Kelly%20response%20to%20Energy%20Guarantee%20consultation.pdf>

I would be happy to discuss this submission in more detail.

Kind regards

A handwritten signature in black ink that reads "Tim Kelly". The signature is written in a cursive, slightly slanted style.

Tim Kelly

100% GreenPower customer