



EnergyAustralia

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Dear Sir/Madam,

Regarding the Climate Change Authority advice to Government on policies to meet Australia's commitments under the Paris Agreement

EnergyAustralia welcomes the opportunity to provide a response to the Climate Change Authority's (the Authority) Consultation Paper as input to the Authority's work to update its advice on meeting the Paris Agreement.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.5 million household and business customer accounts across Eastern Australia. EnergyAustralia controls over 5,000 MW of electricity generation capacity, including around 850 MW of renewable energy and 80 MWh of grid scale batteries across the National Electricity Market.

National, integrated energy policy

The Authority has previously endorsed a sectoral approach, including the following for the electricity-generation sector:

- Implement an emissions intensity scheme or a low emissions target in the electricity sector to provide enhanced investor certainty, ensure reliability and drive net zero emissions by 2050. The Authority also notes that the National Energy Guarantee was also seen as a possible way forward in the sector.
- End the Renewable Energy Target in 2030 as legislated.

Consistent with the Authority's previous advice, EnergyAustralia believes that the most effective means of reducing emissions is through a national bipartisan approach that integrates with energy policy, rather than state-based schemes. We were vocal advocates of the National Energy Guarantee, and if bipartisan support were present, we would continue to support its introduction.

The Authority asks whether sectoral policies should be linked to ensure efficient economic outcomes and to minimise the cost of abatement across the economy. EnergyAustralia supports a national approach that finds the lowest cost way of reducing emissions and is open to discussions on the possibility of linking the Safeguard mechanism to the electricity sector and what it may mean for consumers.

In the absence of a national policy, however, some states are pursuing their own policies. We believe that the Federal Government has a responsibility to coordinate these efforts so that the electricity generation sector transitions at the lowest possible economic and societal cost. Absent this critical leadership, we will work constructively with state governments to transition to cleaner forms of energy in a way that minimises costs to households and businesses and ensures that reliability is maintained.

We have long emphasised the importance of collaboration among all levels of government, business, unions, community groups and other participants in support of a successful transition. The electricity generation sector is particularly complex, with implications for different regions and the economy more broadly, and different generation technologies are equipped to fulfil different roles. Participants in the energy sector are best placed to understand the implications and interdependencies of potential changes to the physical and financial markets. As the Authority considers policy levers to accelerate and strengthen the transition, we hope it will underscore the need for policy interventions to be made in a way that fosters collaboration and joint problem solving.

Any move to decarbonise the electricity generation sector must first seek to resolve several preconditions:

- We must ensure reliability is maintained across the National Electricity Market, which implies that replacement generation is built in an orderly sequence, with time allowed for this, and that investor confidence is maintained
- We must find a way to support the workers who have powered the growth of our nation such that they are meaningfully redeployed
- We must bolster those regions that are most impacted by the transition, and
- We must find a way to ensure that the wholesale electricity prices that flow through to customer bills don't further disadvantage our most vulnerable end users or domestic industries.

Our hope is that the transition of the electricity sector occurs at a pace that allows us to come together to solve for these interdependent challenges.

The Large-Scale Renewable Energy Target and mechanism should not be altered

We encourage the Authority to retain its earlier guidance that the Large-Scale Renewable Energy Target should not be amended and end in 2030 as legislated. Investors have invested through the scheme under these parameters and it should be left the same.

Businesses associated with the energy sector have been subject to unprecedented policy uncertainty and its economic implications. We should aim to retain the little policy stability that we have to provide unambiguous investment signals and ensure fairness to existing market participants.

Investor wariness

EnergyAustralia is concerned that the extent of future policy uncertainty as it relates to the energy sector and the recent history of rapid-fire shifts in policies have introduced risks that work against investment. This is of critical relevance given the vast sums of investment needed within the sector to fund the construction of both new renewable and supporting dispatchable generation. Investors that are adversely impacted by policy interventions or the market conditions that ensue are unlikely to return.

Market dynamics

In the 20 years since the National Electricity Market (NEM) was established, serving the eastern states, it has delivered affordable electricity to customers. Its ability to continue to do this is now being impacted by 'bolt-on' government interventions, such as the Large-Scale Renewable Energy Target and Government-sponsored contracts-for-difference, whereas a price on carbon or emissions intensity scheme would have wired a logic for decarbonisation into the market. The Federal program to Underwrite New Generation Investments would further impact the economics of existing and new plant and compromise the effective market signals for the private sector to build new generation.

Supply and demand of electricity within the NEM is now very finely balanced, with minimal spare capacity to dispatch on-demand when electricity usage spikes or supply from intermittent renewables is low. We are also seeing the coincidence of midday low system demand and high renewable volumes dragging spot prices to zero or negative for those periods, likely slowing further investment in renewables.

Elected governments have the right to set policies that impact the electricity market. What we miss, however, are measures to ensure that these policies are integrated effectively with the NEM. Market design and government objectives need to be working together to deliver optimal outcomes for consumers. The future challenge is to work out how we ensure that appropriate investment signals are there to deliver a cleaner, reliable and affordable energy system that doesn't leave it all to the balance sheets of state and federal treasuries.

National planning alignment for new projects

Efforts made to align Commonwealth and State Government processes for planning and approvals would serve the energy sector well as the transition continues. We think solar and wind energy, demand response, pumped hydro, battery storage and intelligent energy management systems – supported by flexible gas-fired generation – will come to underpin a new, modern energy system in Australia. To this end, a wave of new generation construction projects will be required across Australia.

EnergyAustralia has noted the announcement of the Productivity Commission's twelve-month review of resources sector regulation. This review would seem to be a step in the right direction. We hope it contributes to simplified and accelerated generation facility approvals and the more efficient allocation of resources within the sector.

Balancing the transition effort to minimise costs across the economy

While we agree that the energy sector has an important role to play to continue the transition already underway, it is important to recognise this is not cost free. Other sectors must be required to modernise and decarbonise in lock-step with the energy sector such that the lowest cost path to emission reduction is continually sought out. Transport presents a huge opportunity to decarbonise and should not be overlooked on political grounds.

International offsets

EnergyAustralia continues to advocate for access to, and use of, credible and verifiable Australian and international offset units in the pursuit of the lowest cost abatement for the Australian economy and consumers.

Energy efficiency is worthy of national focus

We endorse the Authority's previous guidance that Commonwealth and state energy efficiency schemes should be harmonised or replaced by a National Energy Savings scheme. This guidance remains relevant today.

The persistence of differing approaches across each state adds operational complexity that wastes the resources of national participants and works against customers getting the best possible assistance at the lowest cost. Each scheme requires separate configuration in participant administration technology systems, as well as separate approaches to reporting and audit. Further, we suggest that a coherent national framework would improve outcomes through sharing of best practice and demonstrating a national commitment to the objective of reducing usage.

We suggest that the Clean Energy Regulator would be the best possible administrator of the scheme and we would welcome a national market-based approach.

Advantages of In-Region Generation Compared to Interconnectors

In contemplating the eventual retirement of emissions-intensive electricity generation facilities, we encourage the Authority to consider the importance of energy security provided by multiple and diverse sources of replacement generation within a region or state.

There has recently been public commentary regarding an AEMO ISP Insights report centred on the case for interconnectors to replace Victoria's brown coal generation fleet in time. We caution that this may not be the lowest cost approach and that it may introduce reliability risks both in terms of unreliable capacity availability and reduction in technical grid stability support services such as inertia.

A strategy that triggered the closure of high emissions intensity sites by building interconnectors to deliver replacement electricity would have several adverse implications, including that:

- The cost of transmission would be directly passed through in contrast to investment in firm, local replacement generation for which the risk is born by the private sector
- There would be no new sources of on-going long-term employment fostered within the state that suffered the loss associated with the closure. Indeed, investment in new generation in neighbouring states would be funded by the state importing electricity using the interconnector
- The exporting state may run out of surplus energy to export to meet the importing state's needs, particularly if that state is a net importer such as South Australia or New South Wales. Intermittent wind and solar energy output tend to be correlated across our southern states, and typically low levels of wind and solar capacity are available at periods of peak demand. Additional interconnection would therefore not guarantee firm supply in the event of co-incident extreme weather conditions across 2 or more states.
- Further, if the exporting state experienced an energy security emergency they can be required to stop electricity being sent to other states at the direction of the Minister
- Interconnection supply cannot be considered physically or financially 'firm', and the treatment under the Retailer Reliability Obligation remains uncertain which

may lead to higher prices for consumers by reducing the availability of firm contracts

- A reduction of firm generation within the state that sees the closure, with demand served instead by interconnection, may cause a reduction in system stability through reduced supply of grid services such as inertia and voltage support. Additional investment in synchronous condensers or other solutions may be required to stabilise the grid, which would add to the delivered cost of the interconnector.

We would welcome a full and thorough assessment by AEMO of the relative benefits of investment in interconnectors relative to local generation investment. It is our view that the more reliable and cost-effective way to replace high emissions intensity generation is with multiple and diverse local generation sources.

Assistance for affected regions and communities through the transition

Much of Australia's highest emitting generation is concentrated in a handful of regions with lower diversity of income than is typical in our major cities. Efforts to transition to sources of electricity generation with lower emissions might be expected to impact the regional centers that have proudly powered our country for decades. These communities require coordinated and sustained support from government and industry so that impacted employees and the community are given new opportunities to prosper.

EnergyAustralia has its highest emissions plant in the Latrobe Valley. While our knowledge is grounded in the Latrobe Valley, the experience is more broadly applicable.

The Latrobe Valley has weathered two large storms, the first in the 1990s when the energy industry was restructured and privatised and the workforce contracted, leading to intergenerational unemployment, and the second in 2017 when the closure of the Hazelwood power station caused the loss of a reported 750 jobs. The Latrobe Valley region has also seen the closure of EBAC (the Energy Brix plant formerly known as the Morwell Briquetting and Power Station) in 2014, in which 85 workers were let go, and the closure of the Carter Holt Harvey Timber Mill in 2017, in which a reported 200 workers were let go.

While the region's unemployment rate is now around 6%, compared to 8% when Hazelwood closed, it remains above the Victorian state average¹ with underemployment and casualisation increasing in the past two years. Fewer high paid jobs now exist in the region and this has had negative flow on implications for other local businesses, with many shutting up shop.

Efforts to decarbonise by closing another coal-fired power station would cause further economic and social upheaval in the Latrobe Valley, even over a time horizon that extended into the 2030s. Any closures must be bolstered by early transition planning by all levels of government, including carefully planned and continuous government investment in the region.

EnergyAustralia spends between \$200-\$300m to keep the Yallourn Power Station running and each year much of this money flows back into the Latrobe Valley community. The loss of another major employer without new economic opportunities would compound the challenges already faced by the community.

Industry and government need to work together to deliver new opportunities to today's workers, and future workers, in the Latrobe Valley. This is the challenge that needs to be solved for if Australia wants to decarbonise.

¹ <https://economy.id.com.au/east-gippsland/unemployment>

Conclusion

Decarbonisation remains a significant challenge, one that the public has made clear that governments and industry must resolve together. The public also rightfully expects that just as emissions must fall, affordability and reliability must not also decline. Communities impacted by the closure of older plants, having powered the economy for decades, are entitled to support.

We can work to ensure an orderly transition if we work together. However, we risk a bumpy transition in the absence of a careful, thoughtful plan that balances emissions, affordability, reliability and economic opportunities for local communities.

For further information on any issues raised in this submission please contact Lisa Gooding, Government and Policy Leader, on [REDACTED] or at [REDACTED].

Best regards,

Jack Kotlyar

Head of Strategy and Reputation