MINERALS COUNCIL OF AUSTRALIA

NATIONAL ENERGY GUARANTEE

DRAFT DETAILED DESIGN FOR CONSULTATION

COMMONWEALTH ELEMENTS

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OVERVIEW

The Minerals Council of Australia (MCA) welcomes the opportunity to comment on the Australian Government's National Energy Guarantee Draft Detailed Design for Consultation Commonwealth Elements document.

The MCA wants the National Energy Guarantee (NEG) to work. The reason is simple - r**eliable and affordable energy is central to our economy and to the mining sector.**

The minerals industry agrees that **sustained global action is required to reduce the risks of human induced climate change**.

The MCA supports **Australia's Paris Climate Change Commitments of a 26-28 per cent reduction in greenhouse emissions by 2030.**

These commitments should be acknowledged as representing one of the largest reductions in per capita emissions among G-20 nations.

Australia has outperformed most developed and major developing nations in constraining the growth of CO_2 emission over the past 25 years. And unlike a number of developed countries, Australia has consistently met its international climate change obligations.

Flexibility is needed in designing policies to reduce emissions. Australia's 2030 emissions abatement challenge will change. The most recent emissions projections saw a decrease in Australia's projected 2030 emissions, leading to a reduction of the abatement challenge of between 11.6-12.3 per cent in one year.

Mining is responsible for about 11.5 per cent of electricity demand in Australia[1]. Policy measures must deliver reliable and affordable energy at least cost while putting Australia on a pathway to meeting its emissions reduction targets.

In this context, the MCA has called for a **national coordinated approach to climate and energy policy** which recognises the energy and resource intensive nature of the Australian economy.

All sectors of the economy have a role to play in meeting the challenge of Australia's emissions reductions targets. Importantly, **a least cost approach to abatement should include access to international offsets.**

The **National Electricity Market (NEM) in Australia is facing serious challenges** including the erosion of baseload generation capacity which is already adversely impacting Australia's industrial sector and households. It is critical the NEG address this issue.

The MCA believes **a technology neutral approach should be adopted for all low emissions energy sources** where no one technology is favoured to the exclusion of others.

Any policy approach should aim to reduce energy costs in Australia and retain a focus on securing reliable lowest cost dispatchable energy supply that is available 24/7, while meeting emissions reduction targets.

It is in this context the MCA is providing comments on the Commonwealth's Elements of the National Energy Guarantee Draft Design.

[1] Office of the Chief Economist, Department of Industry, Innovation and Science, *Energy in Australia 2015*, Fig 4.4

SPECIFIC COMMENTS

Setting the emissions target

MCA Members are focused on reducing emissions.

The minerals industry agrees that sustained global action is required to reduce the risks of human induced climate change. The Australian minerals sector supports a measured transition to a low emissions global economy. This transition will require a policy framework encompassing:

- Australia's participation in global agreements such as the Paris Agreement that includes greenhouse gas emission reduction commitments from major emitting nations.
- A combination of short, medium and long term market-based policy measures that:
    - Provide for least cost abatement of greenhouse gas emissions
    - Maintain the international competitiveness of Australian industry
    - Minimise adverse social and economic impacts on households
    - Provide industry with policy certainty to make long term investments
- Substantial investment in a broad range of low emissions technologies and adaptation measures.

The Australian mining sector makes a significant socio-economic contribution to Australia. As a large producer and consumer of energy, the sector recognises it has an important role in addressing energy and climate change issues while delivering returns to our stakeholders, including employees, communities and shareholders.

The global transition to low emissions technologies – including solar, wind, batteries, gas, advanced coal and nuclear energy – depends on the metals and raw materials provided by the minerals sector.

Australia's Paris commitment of a 26-28 per cent target is challenging.

The MCA supports Australia's Paris commitment of 26-28 per cent reduction in emissions.

As the MCA has noted[2], Australia's Paris commitment of a 26-28 per cent reduction by 2030 of 2005 $CO_{2\text{-}e}$ emissions represents one of the largest reductions in per capita emissions among G-20 nations. In absolute terms, it is comparable to a range of other countries including Japan, New Zealand, Canada and the United States.

The structure of Australia's economy is very different from many developed economies which have effectively 'off-shored' their emissions to developing countries. By contrast, Australia plays an indispensable role in providing food, energy and resource security to some of the world's fastest growing economies in the Asian region.

With emissions counted where they are produced rather than consumed, this means Australia's emissions levels are higher, including in per capita terms than some post-industrial developed economies. Moreover, Australia's economy and population will grow much faster than most developed countries.

As a result of these differences, Australia's transition costs will be higher than many comparable developed nations. This means policy options must take account of the critical need to maintain the international competitiveness of our export and import-competing industries.

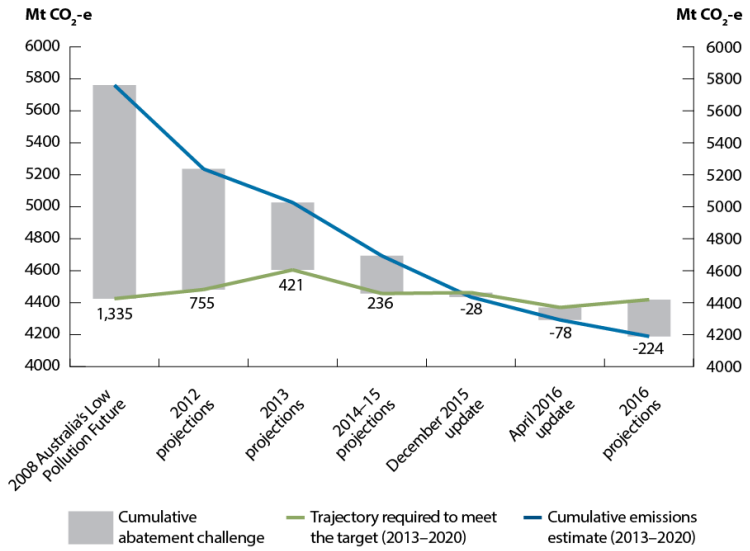
Unlike a number of other developed countries, Australia has an enviable track record of meeting climate change targets it has agreed to – something few other countries can claim. This has been

[2] MCA Submission to the 2017 Review of Climate Change Policies – available here.

seen in Australia beating its first Kyoto Target in 2008. Australia is also on track to beat its 2020 target by 294 million tonnes.[3]

Emission Targets and abatement challenges do change.

The chart below (from the December 2016 projections) highlights how much projections have changed over time.



A similar trend is already being observed in relation to the 2030 target. As the December 2017 projections state:

> *'Emissions in 2030 are projected to be 570 Mt CO2-e, a downward revision of 22 Mt CO2-e since the 2016 projections.'*
>
> *The 2030 target will require: 868-934 Mt CO2-e in cumulative emissions reductions between 2021 and 2030 to meet the 26 per cent and 28 per cent targets respectively.*
>
> *This is a downwards revision of 122 Mt CO2-e since the 2016 projections.*[4]

Put simply, Australia's projected 2030 emissions challenge improved by 11.6 to 12.3 per cent in 12 months.

This serves as a cautionary note to setting policies based on long term emission reduction targets - policies and responses need to be flexible so as to avoid even greater costs associated with locking in a policy mix designed to meet an uncertain target.

Straight-line trajectory is less flexible, and could impose greater costs.

Given the size of the abatement challenge may change, there is less of a case for having a prescriptive straight-line trajectory.

While it has been suggested there is a benefit from having a clear target set each year, the market should be able to determine the best way to achieve the end target. As the paper notes, it is about achieving the overall 2030 target.

In that context, the proposed straight line trajectory could lock in a more costly approach to reducing emissions.

If the decision is made to retain the straight-line trajectory, then consideration should be given to allowing greater banking and borrowing.

[3] Australian Government, *Australia's emissions projections 2017*, December 2017.
[4] Ibid, p.3

Embedding the 2030 target in legislation is critical.

The proposed approach of embedding the 2030 target into legislation is welcome and supported.

Doing so is crucial for providing the certainty the energy sector is seeking with a 10 year horizon. While legislation can be changed, it would require parliamentary scrutiny.

Not embedding the target into legislation would undermine the certainty created by the NEG.

It would send a clear signal Australia's climate change policies are again the subject of partisan political debate. This would lead to even higher risk premiums being placed on new investment within the power sector.

Updating the 2031-2035 target in 2025 is also welcome. Again, this about providing certainty around the electricity sector's budget.

A single national target is required.

The Australian Government is the signatory to the Paris agreement, not the states. Having multiple state based targets creates greater uncertainty for investors.

Despite this, a number of states have indicated they will persist with more ambitious state-based targets. In this case, the Australian Government should include these under the national target – that is, any proposed state-based target should not be additional to the national approach.

Exemption of Emission Intensive Trade Exposed (EITE) activities

The proposed approach on exempting EITEs based on the current approach used with the Renewable Energy Target (RET) is appropriate.

Simplifying the current RET EITE process and the proposed version under the NEG is welcome. The RET process is well understood by industry, and alignment with it is a common-sense policy approach.

However, it should be noted the exemption from direct costs associated with the emissions target does not address the increase in wholesale prices driven by broader market events.

This is particularly relevant given the extent to which power prices have risen, and the prospect further closures of large low cost baseload plant may lead to higher prices.

It remains a key issue for MCA members – the need to address the erosion of baseload generation capacity which is already adversely impacting Australia's industrial sector and households.

External Offsets

Credible offsets should be allowed.

The MCA supports the use of appropriate offsets – domestic and international –as a means of minimising the cost of meeting Australia's international obligations.

The MCA supports the proposed inclusion of Australian Carbon Credit Units (ACCUs), taking into account the potential for 'double counting' as referenced in the Paper. These units have been created using a robust and credible methodology.

Similarly, the MCA supports the Australian Government's intention to allow only those international units which are of an equivalent standard of ACCUs.

Proposed cap unlikely to deliver benefits to consumers.

The Paper suggests placing restriction on the use of offsets in the power sector – 5-10 per cent – to meet the expected 2030 emission abatement challenge.

It remains unclear from an economic and investment perspective why this artificial constraint would enhance investor certainty or lead to lower power prices.

The ultimate objective for government policy should be least cost abatement. It should be up to market participants to determine what level of offsets are required to achieve this objective.

Given these points, the MCA suggests the proposed cap on the level of offsets be removed. Doing so would simplify administration of the 2030 target, while also allowing the market to best respond in the most efficient manner.

This should lower the costs of meeting Australia's 2030 Paris commitment by allowing, in this context, for the most efficient investment in the power sector.