

Submission from
Climate Change Balmain-Rozelle
on the

Federal Government's "National Energy Guarantee Draft Detailed Design for Consultation, Commonwealth Elements, June 2018 ¹"

29/06/18

Climate Change Balmain-Rozelle is an independent community group in inner west Sydney, promoting local and national action to reduce fossil fuel use, increase the adoption of renewable energy, and head off catastrophic global warming. We count over 1000 supporters.

Long Term Objective

Australia's ultimate objective must be power that is, at the least, 95% fossil carbon-free. Moreover, it is likely that we will need to reach that state within 30 years.

In 2013, the *Climate Change Authority* calculated

"A national carbon budget for the period 2013–2050 of 10.1 Gt CO₂-e."²

According to Australia's Greenhouse Gas Inventory, we have since mid 2013 emitted 2.4Gt³. So we have used nearly 25% of the budget in 54 months, about double the average rate of burn we need to target.

The NEG as proposed may hold us back in reducing our carbon emissions

The Government proposes to issue emissions targets at times varying from 5 to 10 years ahead of their applicable dates. Both climate science and energy technology are fast-moving fields. Compounding that, the path from research to report to policy can take years. While the targets may be set using the best information available at the time, the scheme must be able to adjust them more dynamically than is proposed.

The market response adds to that path length. It may take several years to build the new infrastructure implied by the operating parameters set, and its economics may depend on a 30 year lifetime. Thus it is apparent that the market mechanisms proposed in the draft are not capable of solving the long term emissions problem. New baseload gas power, for example, could be a stranded asset in ten years. To drive infrastructure that will be needed in 30 years may well require 30 year targets set now.

The analysis needs to work backwards from the long term goal:

1

<http://www.coagenergycouncil.gov.au/publications/national-energy-guarantee-draft-detailed-design-commonwealth-elements>

2 <http://climatechangeauthority.gov.au/reviews/targets-and-progress-review/part-c>

3

<http://www.environment.gov.au/climate-change/climate-science-data/greenhouse-gas-measurement/progress-inventory>

1. With proven technology, how could the grid operate at 5% of today's emissions?
2. What is a feasible path to such a grid by 2050?
3. What incentives need to be in place now?
4. How do we manage cost and reliability along the way?

Emphasising the short-term economic concerns risks intergenerational theft.

We note that feasible options for a zero emissions grid have been demonstrated by several expert teams^{4,5,6}. A 5% emissions grid is considerably easier.

Paris Commitments

[section 2.1]

"The Government has previously said that the target for the electricity sector would be a 26 per cent reduction on 2005 levels by 2030. ... This target is consistent with the Government's commitment under the Paris Agreement".

Even an *increase* in electricity sector emissions could be claimed as consistent with the Paris commitment if it could be satisfied by reductions elsewhere. A more reasonable test of consistency is whether the total reduction across sectors at minimum cost to meet the commitment would result in the given target for the electricity sector; it clearly would not.

As is widely acknowledged, the electricity sector is one of the cheapest for emissions reduction. Agency modelling has shown that the most cost-effective ways to meet the Paris commitment imply a 40-55% cut in the electricity sector.⁷

Unless the Government can release modelling to show a pro-rata reduction across sectors would be a cost-effective solution, we must assume that this proposal is inadequate, inefficient and likely to be ineffective, throwing an expensive and possibly unachievable burden on other sectors.

Further, our commitment at Paris is not limited to emissions reduction:

"Article 5

1. *Parties should take action to conserve and enhance, as appropriate, sinks and reservoirs of greenhouse gases as referred to in Article 4, paragraph 1(d), of the Convention"*

A coal deposit is as much a reservoir of carbon as is a forest or peatland. This article requires Australia to cease mining coal.

Responses as invited in the Draft

Setting and Reviewing the emissions target [section 2]

"Stakeholder views are sought on:

- *"The Government's proposed approach to setting the initial electricity emissions targets under the Guarantee."*

[that is, laying out an emissions trajectory for the years 2021-2030 for each of those years, and setting an emissions intensity to be achieved by the market players as the target emissions level divided by forecast demand]

⁴ <http://bze.org.au/stationary-energy-plan/>

⁵ <http://re100.eng.anu.edu.au/resources/assets/1708BlakersREAust.pdf>

⁶ http://www.energynetworks.com.au/sites/default/files/entr_final_report_april_2017.pdf

⁷

<http://www.tai.org.au/sites/default/files/P439%20Meeting%20our%20Paris%20Commitment%20-%20TAI%20Climate%20and%20Energy%20Program%20-%20September%202017.pdf>

In our view, presenting the target to the market players in terms of emissions intensity is reasonable, but it does mean that emissions levels can diverge from the intended trajectory quite swiftly. Moreover, the government of the day needs to retain the ability to adjust target levels in response to evolving science, technology and international pressure. A published ten year trajectory should be only a guide, with the trajectory reviewed annually, perhaps with small adjustments to the remaining future years. Delaying adjustments by five years could be most unfortunate.

Investment certainty cannot be guaranteed to exceed climate or technology certainty. If at some date the science shows we must act much faster then the government must have the flexibility to do so. This may be required as part of a future international pact. Industry can keep an eye on international developments and anticipate government action⁸. A promise to conform to international scientific consensus is about the best certainty a government should in good faith provide.

For example, the initial trajectory might start with successive 2.5 percentage points reductions in intensity in each of the first five years. After one year, it might be considered appropriate to lift ambition to 2.7 percentage points for the second and third years. This should still leave adequate predictability for the emitters.

Prefiguring such possibilities now may be necessary to avoid legal action by industry later.

Nor should targets should be eased too quickly. Low emissions generators need certainty too.

"If states and territories choose to pursue their own renewable energy targets, the Government's position is that this would not affect the electricity emissions targets that would operate under the Guarantee."

Allowing the greater achievements of some states to be squandered by others is iniquitous. In each year, individual states might opt for a lower emissions intensity than declared at Federal level. The Federally declared intensity should still apply to those states which do not so elect. There is no difficulty in taking into account transmissions between states.

In reviewing the trajectory, the Government should exclude the extra reduction in emissions by the more progressive states from its accounting of the total reduction so far. In this way, greater cuts by individual states would be additional to the 26% overall reduction. This would not only help averting dangerous climate change but position the country better for future international commitments.

EITE [section 3]

Existing rules only apply the best-practice baseline for EITE activities to "New or significantly expanded facilities from 2020"⁹. But what if the activity is competing with a lower emissions equivalent overseas? Unnecessarily emissions-intensive production should not be grandfathered in.

For the Guarantee, EITE exemption should only apply in respect of international best-practice baseline.

Adjusting targets applied to EITE activities according to changes in their emissions needs to be thought through carefully.

It is to be hoped that most changes would be reductions in EITE emissions as technologies improve. In that event, ambition should rise to take up the slack that results. If EITE emissions increase, and the rules are working correctly, then this must be the result of increased production.

⁸ It has been argued that a political promise to ignore the science led to the underinvestment in generation we now face. E.g. <https://www.smh.com.au/business/failure-to-fully-implement-finkel-review-causing-energy-uncertainty-aemc-20170912-gyfgdh.html>

⁹ <http://www.cleanenergyregulator.gov.au/NGER/The-safeguard-mechanism/Baselines>

If such increase in production achieves international best practice, to the extent that this displaces more emissions-intensive overseas production then in many cases there may be no harm done, but it is undesirable to increase world production of emissions intensive goods. Aluminium is a prime example. While it is defensible to protect existing production that meets best practice, we should avoid encouraging growth of inherently harmful activities.

Indeed, the whole concept of excusing EITE emissions dodges the question of whether a particular industry should be fostered at all.

Offsets [section 4]

"Stakeholder views are sought on:

- *Whether market customers should be able to use offsets to reduce part of their emissions under the Guarantee.*
- *The proposed approach to using offsets to be used for compliance under the Guarantee."* [that is, *use Australian Carbon Credit Units (ACCUs) to contribute towards meeting the emissions requirement of the Guarantee*]

The option of buying ACCU offsets must be ruled out. The ERF has not proved fit for purpose.

Emissions baselines have been raised, apparently because businesses had difficulty achieving them¹⁰. Currently, only about 16% of the announced 192 million tonnes of emissions reduction have actually been delivered¹¹.

It is unknown to what extent the reductions contracted for are additional. The best the CCA's review could say was that there is

*"no evidence that a lack of additionality is a widespread problem across the scheme"*¹².

Over half the signed projects involve vegetation¹³. Plantings and avoided clearance are considered permanent after 100 years, and, in terms of credits, 75% of permanent after 25 years¹⁴. Moreover, forests mature. A society that maintains its net emissions low by such credits must therefore find more and more land for afforestation. This is not sustainable.

Conclusion

The Commonwealth Government should:

1. Develop a vision for a near-zero emissions grid and a path to achieving it.
2. Ensure that emissions reductions by states beyond the federal target are additional.
3. Set emissions targets at least 30 years ahead, but each as a band, with the band range increasing each year into the future.
4. Adjust the bands annually, narrowing each band as that year approaches, only setting firm a year or two in advance.

¹⁰

<https://www.theguardian.com/australia-news/2018/feb/19/emissions-increases-approved-by-regulator-may-wipe-out-260m-of-direct-action-cuts>

¹¹ <http://www.cleanenergyregulator.gov.au/ERF/Auctions-results/December-2017>

¹²

<http://climatechangeauthority.gov.au/sites/prod.climatechangeauthority.gov.au/files/files/CFI%202017%20December/ERF%20Review%20Report.pdf>

¹³

<http://www.cleanenergyregulator.gov.au/Infohub/Media-Centre/Pages/Resources/ERF%20media%20resources/Emissions-Position-as-at-January-2018.aspx>

¹⁴ <https://www.legislation.gov.au/Details/F2017C00670>

5. Refrain from committing to future upper bounds on ambition that could subject the Commonwealth to compensation for industry.
6. Increase the share of the 2030 emissions reduction assigned to the electricity sector to a 40-55% reduction, in line with the models.
7. Only allow EITE exemptions using international best-practice baselines.
8. Rule out ACCU/ERF offsets.

Glossary

ACCU	Australian Carbon Credit Units Each represents 1tCO ₂ e emissions avoided or sequestered. ACCU are issued by the CER for emissions reductions achieved through projects under the Carbon Farming Initiative legislation	http://www.cleanenergyregulator.gov.au/ERF/About-the-Emissions-Reduction-Fund
CCA	Climate Change Authority	http://climatechangeauthority.gov.au/
CER	Clean Energy Regulator	http://www.cleanenergyregulator.gov.au/RET
EITE	Emissions-Intensive Trade-Exposed Industries	http://www.environment.gov.au/climate-change/publications/eite-activity-boundaries
ERF	Emissions Reduction Fund	http://www.cleanenergyregulator.gov.au/ERF/About-the-Emissions-Reduction-Fund
ESB	Energy Security Board	http://www.coagenergycouncil.gov.au/energy-security-board
NEG	National Energy Guarantee	http://www.coagenergycouncil.gov.au/publications/energy-security-board-update