

Climate Change and Resource Efficiency Policy Branch
NSW Office of Environment and Heritage
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Submitted by online to <https://engage.environment.nsw.gov.au/Environmental-Future-Consultation-Make-Submission>

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Draft Climate Change Fund Strategic Plan

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the NSW Office of Environment and Heritage on its Draft Climate Change Fund Strategic Plan (the Draft Plan).

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses. We support the NSW Government leading a coordinated, national strategy to achieve a lower emissions energy system that delivers affordable and reliable energy.

A national approach is required for a least cost, most effective emissions reduction

We support the NSW Draft Plan to advocate for and pursue a national strategy to lower emissions. The NSW Government should support a national approach to renewable energy and emissions reduction policy working through the COAG Energy Council. A national approach to energy and emissions policy allows proponents to locate their projects in areas with a natural advantage, such as high wind or solar resource locations. This in turn drives the most efficient emissions reduction consistent with maintaining reliability and security of supply. Under state specific renewable energy targets, lower overall efficiency and output can be expected for both NSW and the nation¹. The Australian Energy Market Commission (AEMC) presented this analysis to Energy Ministers in December 2016 reporting that:

“The jurisdictional schemes may result in higher resource costs being incurred and higher prices for consumers of that jurisdiction than under the Extended LRET, which is geographically-neutral.” xvii

The Energy Council believes any policy to reduce emissions in the energy sector should follow some clear principles to be effective. For effective emissions reduction policy we propose that policy follow these principles to:

- Reflect and honour Australia’s commitment to international agreements to reduce emissions;
- Be applied economy wide, noting different challenges and approaches may be required in different sectors of the economy;
- Be applied nationally;
- Reduce emissions at the lowest cost;

- Be supported by both major parties, as both are likely to have stewardship over its execution over the coming decades;
- Set credible, enduring and transparent constraints on emissions;
- Be complemented by measures to manage the distributional impacts of the climate policy;
- Provide sufficient legislative or programme certainty that affected industries can make long-term investment decisions; and
- Be developed through transparent, consultative processes, including an assessment of the full costs and benefits of policy proposals.

Policy options to increase innovation in renewable energy

The Energy Council supports the Draft Plan's strong focus on accelerating innovation and on technologies that are flexible and responsive. Funding for emerging technologies (rather than already commercial technologies such as solar PV or wind generation) yields the greatest positive spill over benefits to NSW by increasing knowledge and learning in the state, while supporting research into dispatchable, scheduled forms of energy generation that provide flexible power that is valuable to energy users. The Finkel Review of climate and energy policy confirms that energy generation is most valuable to the market and energy users when it is responsive to changing demand – when it is dispatchable and scheduledⁱⁱ. Funding these mechanisms through the budget will limit price increases to energy users and limit distortions in the wholesale market.

The contracts for difference (CFDs) mechanism proposed should be carefully assessed for its ability to maximise the total value of the energy to the market by rewarding projects that are responsive to energy demand. Contracts that guarantee a return, regardless of the level of energy demand, make producers insensitive to demand (and price). In the long run, insensitivity to price results in inefficient outcomes and underinvestment which may require future government assistance to overcome. CFDs which allow the project proponent to maximise the benefits of their projects to consumers (by capitalising on wholesale prices at times or locations of high demand) will maximise the benefit of each project to energy users and lower the commercial risk to the NSW government.

Allowing investors and retailers or large users to contract with one another on commercial terms ensures that both parties can take advantage of opportunities for effective emissions reduction and efficient energy generation. We encourage consideration of how projects could be supported to provide value to power system reliability and security. An alternative mechanism for supporting projects is grant funding, targeted toward projects which provide flexible supply, or ancillary services and not just energy. It is worthwhile to maintain flexibility in renewable policy that allows government to respond to network operation or security needs in the future, as the market transitions.

Energy efficiency

Energy efficiency is a complementary part of the transition to a lower carbon economy because increasing awareness and information helps consumers to reduce energy consumption and emissionsⁱⁱⁱ. In the long term, energy efficiency projects may reduce costs for all consumers rather than just those undertaking activities. By reducing energy demand, less capital investment in new renewable energy projects may be necessary and upgrades to network infrastructure may be deferred. Reduction in consumption due to energy efficiency can help to offset price rises as a result of the transition to renewable energy, noting that cost increases may also result from drivers such as higher fossil-fuel prices. If energy efficiency projects help to reduce peak demand, they may also help to delay investment in transmission and distribution network upgrades. The deferred cost of network upgrades and lower overall energy use effects can help to lower costs for all users, not just those who adopt energy efficient products and services.

The Energy Council strongly encourages the NSW Government to work alongside other state governments to harmonise energy efficiency schemes operating around the country. The differences in existing schemes in NSW, South Australia and Victoria result in increased costs for energy retailers to comply with each scheme. These costs stem from differences in the activities that are eligible, different requirements for products and the

added costs of reporting and surrendering certificates to separate schemes. Ultimately, these costs are passed on to consumers. State-based energy efficiency schemes should:

- Support network tariff reform, which is essential for ensuring consumers are provided with appropriate price signals.
- Be targeted (e.g. provide support to vulnerable and low income households).
- Allow businesses to make their own procurement decisions.
- Have modest and limited targets (e.g. fixed quantitative target or fixed pool of funding).

Unlocking the most efficient way to further decarbonise our energy systems, while maintaining supply stability and power quality requires careful consideration. The Energy Council supports NSW's efforts through COAG to achieve an effective, coordinated, national approach to emissions reductions.

Any questions about our submission should be addressed to Emma Richardson, Policy Adviser by email to emma.richardson@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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ⁱ AEMC, 2016, *Integration of energy and emissions reduction Policy*, <http://www.aemc.gov.au/Markets-Reviews-Advice/Integration-of-energy-and-emissions-reduction-poli/Final/AEMC-documents/Final-Report.aspx>

ⁱⁱ Commonwealth of Australia, 2016, *Preliminary Report of the Independent Review into the Future Security of the National Electricity Market*, <http://www.environment.gov.au/system/files/resources/97a4f50c-24ac-4fe5-b3e5-5f93066543a4/files/independent-review-national-elec-market-prelim.pdf>

ⁱⁱⁱ Productivity Commission, 2011, *Carbon Emission Policies in Key Economies*, <http://www.pc.gov.au/inquiries/completed/carbon-prices/report>