



EnergyAustralia

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Dear Panel Members

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EnergyAustralia submission to the Independent Expert Panel: Interim Emissions Reduction Targets for Victoria 2021 – 2030 Issues Paper

EnergyAustralia welcomes the opportunity to make a submission to the Independent Expert Panel (the Panel): Interim Emissions Reduction Targets for Victoria 2021 – 2030 Issues Paper.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to 2.6 million household and business customer accounts in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. EnergyAustralia owns and operates 5,000 MW electricity generation, which includes rights to more than 1,000 MW of renewable energy. In Victoria we have 500,000 customers, 2500 MW of electricity generation capacity and employ over 2000 people.

Our position in summary

EnergyAustralia supports the Victorian Government's climate change vision of a positive, orderly and just transition for all Victorians. To us this means transitioning Victoria's emission intensive energy mix to cleaner forms of energy in a way that minimises costs to households and businesses and ensures reliability is maintained. We think the best way to achieve this is through national and bipartisan agreement on emissions reduction. This is why we support the National Energy Guarantee (the Guarantee).

Despite our preference for a national approach, we recognise Victoria has chosen to set its own targets. If two targets operate alongside each other, our preference is that their designs are harmonised as far as possible. We also suggest electricity wholesale market modelling is undertaken by the Panel to analyse the effect of targets on Victorian power station closures and the resulting impact on the affordability and reliability of electricity for Victorian customers.

EnergyAustralia prefers national emissions reduction targets

EnergyAustralia supports a national bipartisan approach to emissions reduction that integrates with energy policy to provide investment certainty and an orderly transition.

The lead option currently available for an electricity generation sector emissions reduction target is the Guarantee. The Guarantee aims to reduce emissions while improving the reliability of the grid. If the Guarantee is implemented, it offers a mechanism for Victoria to achieve major elements of its climate change framework and emissions reduction

target. Importantly, it could provide certainty to enable investment in new cleaner forms of energy to flow to Victoria.

We welcome the Victorian Minister for Energy and Climate Change agreement to further work at the recent meeting of the COAG Energy Council and hope that full agreement can be reached in August 2018.

Victorian and national emissions targets should be harmonised as much as possible

If implemented, the Guarantee will set a National Electricity Market (NEM) wide electricity generation emissions reduction target for 2020 – 2030, which is the same period under consideration for Victorian interim targets. As electricity generation contributes 50 per cent of Victoria's emissions, the Guarantee will have a large overlay with the economy-wide Victorian emissions reduction target. We suggest that the Victorian interim emissions reduction target and the Guarantee are aligned as much as possible. This could be possible by choosing the same form of target, review periods and approaches to emission intensive trade exposed sectors and offsets. We note that the approach to offsets will have a large impact on the overall affordability of reaching the targets.

Alignment on scheme design will limit costs and investment uncertainty for all Victorian based generators and retailers. Complying with multiple jurisdictional schemes involves costly reporting processes and legal and compliance expertise. This creates barriers to entry and disproportionately impacts smaller participants. Multiple schemes also lessen investment certainty, as it creates an environment of ever-changing policies. Alignment between schemes would help streamline investment decisions and avoid the stalling of investment that we saw under the frequent review mechanism of the Renewable Energy Target. Stimulating investment and new entry are the very things likely to put downward pressure on electricity prices and support an orderly transition, while emissions are reduced.

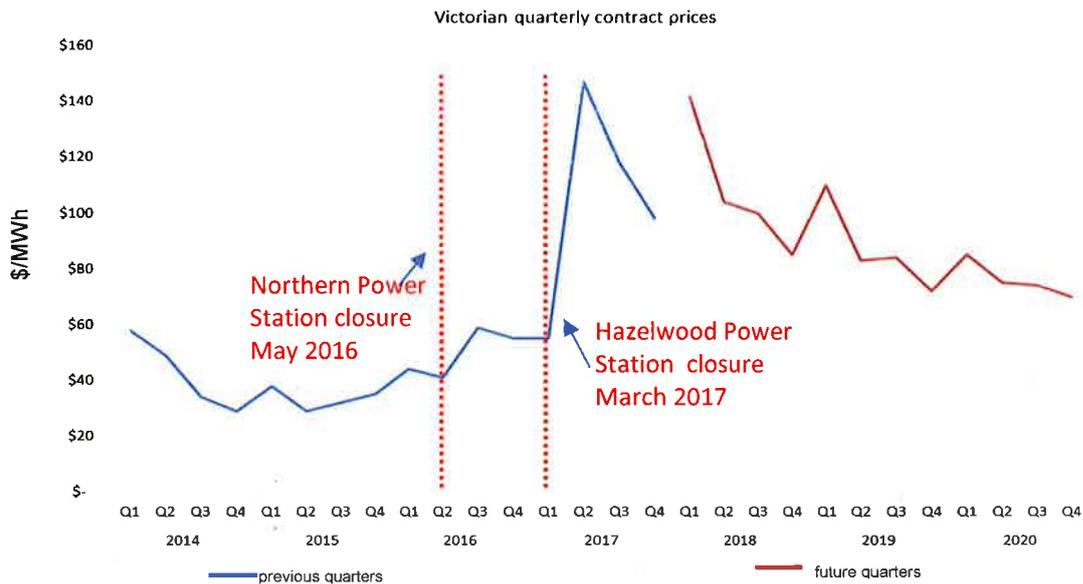
During May and June this year, the Victorian Government will have the opportunity to influence the design of the Guarantee's emissions target. If Victoria signs up to the Guarantee, it will presumably reflect Victoria specific trade-offs between the energy trilemma of reliability, emissions reduction and price and Guarantee emissions reduction target settings can be carried across to Victoria's target.

Careful analysis of the electricity wholesale market is required

Even if emissions reduction target parameters are harmonised with the Commonwealth, differing levels of ambition are likely to remain. We encourage the Victorian Government to model the impact of targets on the electricity wholesale market and the resulting impact on Victorian households and businesses. This will assist the Panel to set targets and trajectories that promote an orderly transition of Victoria's emission intensive generation fleet. We note modelling was done for the Victorian Renewable Energy Target. Below we outline some additional considerations, should modelling of emissions target be undertaken.

The abrupt exit of the Hazelwood Power Station is evidence of the impact power station closure can have on power prices, workers and local communities. For example, wholesale power prices rose rapidly and Victoria is facing costs associated with labour force changes. Figure 1 below demonstrates the impact of power station closures on electricity contract prices. Electricity wholesale prices make up around a third of household electricity bills.

Figure 1: The impact of power station closures on Victoria electricity contract prices



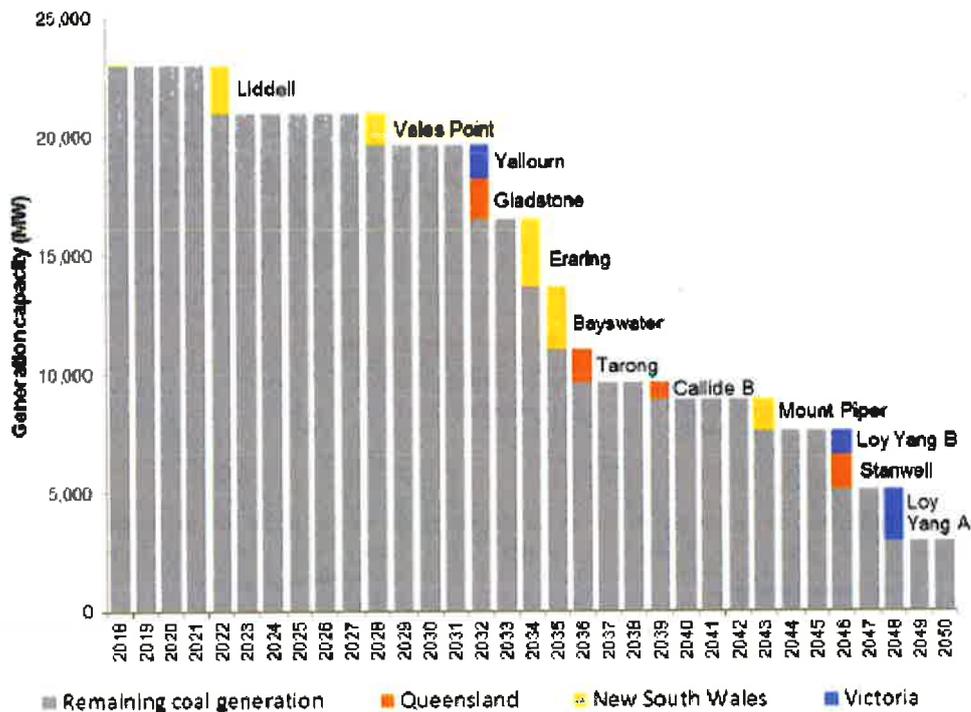
Source: EnergyAustralia analysis

Victoria is part of the interconnected NEM. The next three decades are likely to see the retirement of all coal power stations in the NEM (see figure 2 below). Victoria’s emission target and its design must carefully balance the retirement of existing generators (including reliability, system security and affordability) with the transition to new forms of generation.

This careful balance requires good planning assumptions. For example, we can observe that power stations tend to retire in full as opposed to gradually – as observed with Hazelwood. Yallourn power station is expected to come to the end of its useful life just outside the target timeframe of 2020 – 2030 and, as such, is one of the material changes to the Victorian system to be considered. Abrupt reductions in supply, such as Portland Aluminium Smelter, would also have a large impact on emissions levels. The impact of the reliability mechanism being considered by the Energy Security Board will also play a role in power station closures. System security is not typically included in wholesale market modelling but is becoming increasingly important as evidenced by reviews being undertaken by the Australian Energy Markets Commission.

Flexibility should be built into the target to acknowledge the contribution Yallourn and other stations make to reliability and affordability in Victoria. Electricity wholesale market modelling and physical analysis of the system will assist with these considerations. The figure below shows indicative power station closures over the next thirty years.

Figure 2: NEM coal generation fleet operating life to 2050
(based on 50th year of operation or announced retirement)



Source: AEMO/ESAA

EnergyAustralia supports emissions reduction in Victoria

Even though we do not support a Victorian specific emissions reduction target, we have invested in many projects specifically aimed at transitioning Victoria to a cleaner generation mix. We will continue this transition through 2020 – 2030 and beyond. Current projects include:

- 950 MW of peaking gas-fired power stations at Newport and Jeeralang
- 20 MW wind farm at Morton’s Lane
- 60 MW solar farm at Gannawarra and another 250 MW proposed at Mallee
- 80 MWh battery storage at Gannawarra and Ballarat (in development)
- 50 MW of demand response across New South Wales, Victoria and South Australia in partnership with ARENA and AEMO
- we also directly support our customers by offering GreenPower, Go Neutral ¹, energy efficiency advice and roof-top solar.

Conclusion

EnergyAustralia supports national bipartisan emission reduction targets. Where possible we do not support state based targets as they add costs and complexity, which impact all market participants – notably smaller participants and new entrants. We encourage the Panel to work with the Energy Security Board to harmonise the design and form of the Victorian emissions reduction target with the Guarantee. This is not only sensible public policy but is likely to lead to enduring emissions reduction in Victoria at the lowest cost to consumers.

¹ An EnergyAustralia product that allows customers to offset all the carbon emissions arising from their electricity use at no additional cost.

For further information on any issues raised in this submission please contact Kirsten Hall, Policy & Advocacy Lead (Climate Change), on (03) 8628 1185 or at kirsten.hall@energyaustralia.com.au.

Regards

A handwritten signature in black ink, appearing to read 'Jack Kotlyar', written in a cursive style.

Jack Kotlyar
Head of Reputation

