Independent Expert Panel on Interim Emissions Reduction Targets for Victoria (2021-30)

Alinta Energy welcomes the opportunity to comment on the Independent Expert Panel’s advice on Interim Emissions Reductions for Victoria (2021-30). Alinta Energy accepts the science of climate change and supports collective action to lower the emissions intensity of our industry and our economy more broadly.

Alinta Energy is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,100MW of thermal generation facilities, and in excess of 1.2 million electricity and gas customers including more than 650,000 in east coast markets, and is therefore well placed to provide informed comment. Alinta Energy is a significant investor in renewable energy generation and aims to expand its portfolio from near 800MW of built and contracted plant to 1,000MW by 2020.

Ensuring that Australia achieves its emissions reduction commitments will require transition over several decades and is critically dependent on long-term bipartisan policy that supports stability, predictability and flexibility.

As such, Alinta Energy strongly supports the following:

- A singular national clean energy policy should be adopted. As stated in our submission to the Issues Paper, given Victoria has chosen to implement a state based, legislated target, work towards this should complement national policies.
- The setting of flexible interim targets through to 2030 in Victoria with options for flexible compliance with existing and new regulation as required.
- The development of mechanisms which incentivise industry led research and development of medium-term solutions transition solutions should be encouraged.

In addition to the overarching policy approach above, the following should be considered in the achievement of the interim emissions targets:

- **Emissions reduction from sectors outside of energy** - Alinta Energy supports the recommendations to capture emissions abatement opportunities in other sectors. While the stationary energy sector has and will continue to be a significant
source of emissions abatement, pursuing abatement opportunities in other sectors (such as transport and agriculture) will make achievement of any target more attainable and at least cost. Furthermore, some of these industry sectors are the direct policy and legislative focus of the Victorian Government, do not require involvement from the Federal Government and administration of emissions targets may be simple.

- **Alignment of emissions target setting with international commitments** - Timeframes to achieve interim targets should allow for adjustment to align with International Paris Climate Commitments (every five years). This will allow for any changes in international commitments or alternative international policy directions to support the principle of flexibility in the approach to target setting. Given the nature and scale of investment in physical generation plant in the energy sector, this also provides participants with the ability to re-adjust business models in response to variations.

- **Use of offsets** - While Alinta Energy notes the Expert Panel’s work excludes making policy recommendations, we support the use of domestic and international offset units being used to lower the overall cost burden on Victorian energy consumers and provide flexibility for any liable entities. Domestic emission reduction offset units originating from the energy sector should be allowed and no quantity limits should be placed on their use by liable entities. With respect to international offset units, some limitations should be considered on the use of international offsets to ensure Australia develops its own domestic capability to reduce emissions and not be reliant on international offsets into perpetuity. This point is consistent with Alinta Energy’s position on the development of the National Energy Guarantee throughout 2018.

- **Coordination with the Australian Energy Market Operator (AEMO)** – Alinta Energy strongly encourages the Victorian Government to work closely with AEMO and other regulatory bodies, so the Victorian target trajectory can be incorporated into their future studies and forecasts. Given the tight supply-demand balance present in the Victorian electricity market, the Expert Panel and the Victorian Government need to ensure an orderly transition of Victoria’s existing emission intensive generation fleet. The abrupt exit of Hazelwood power station is evidence of the impact power station closure can have on power prices, workers and local communities.

In relation to this final point, the Government should consider the impact across the NEM, on both price and reliability, of an accelerated Victorian transition to renewable energy. This includes the impacts on owners and operators of existing and planned generation investment in Victoria.

Alinta Energy also notes that while there is ample commentary around forecast reductions in wholesale pricing set out in the Final Report – we believe for the sake of transparency for consumers and government alike - work should be done to provide visibility on the required investment in transmission and distribution and the increasing fixed asset base consumers will need to pay for to support investment in renewable energy.

Finally, there is also no separate focus in the Final Report around gas and gas access which should also be completed to inform the discussion of policy options when considering the viability and costs associated with proposed interim targets. Gas generation and supply will materially impact the transition path and associated costs over the period 2020-2030.
Responses to specific questions to the consultation are set out below. We would welcome further discussion of these issues with the Expert Panel. Should you have any questions or require any additional information, please contact Mr Anders Sangkuhl on (02) 9372 0992.

Yours sincerely,

Graeme Hamilton
General Manager, Government and Regulatory Affairs
The Independent Expert Panel’s recommended targets

The Independent Expert Panel recommends Victoria set greenhouse gas emissions reduction targets of:

- 32-39% below 2005 levels in 2025; and
- 45-60% below 2005 levels in 2030.

1: Do you support these targets recommended by the Panel?

Alinta Energy supports a sustainable and flexible transition to lower emissions for Victoria by 2050. However, we believe the trajectory of emissions reduction for the first two interim periods should focus on the lower bound of the targets recommended by the Expert Panel.

While emissions will reduce significantly in the electricity generation sector over this period given the pipeline of renewable energy investment committed and proposed for construction in Victoria (and supported by state government policies), reduction in emissions at the higher end of the target bounds will rely more heavily on the electricity generation sector and will require adjustments that will impact Victorian communities disproportionately and may not be the most economically optimal approach to reach zero emissions by 2050.

Alinta Energy would encourage flexibility in the interim targets and the polices aimed at achieving these. The mid-period review will provide an opportunity to determine if sufficient abatement opportunities remain to achieve an optimal level of emissions reductions by 2030. Also, by that time the impact of recent electricity rule changes can be evaluated for impact and policies adjusted as required.

As required by the Climate Change Act 2017, the Independent Expert Panel considered a broad range of issues in reaching its recommended targets including:

- Scientific evidence on the significant risks that climate change poses to Victoria;
- The actions that Victoria and others (including the Commonwealth government) are already taking to reduce emissions – including the commitment of the international community, through the Paris Agreement, to limit warming to well below 2°C and to pursue efforts to limit the increase to 1.5°C above pre-industrial levels, in order to avoid the worst impacts of climate change;
- The implications of Victoria contributing its fair share to limiting global temperature increases in accordance with the Paris goal (emission budgets for Victoria);
- The availability of significant emissions reduction opportunities across the Victorian economy; and
- The potential economic, social and environmental benefits and costs of Victoria’s transition to a net zero emissions economy.

2: Are these the key issues influencing what the right targets are for Victoria? Are there other issues that should be considered?

These are the key issues influencing the targets in Victoria, however Alinta Energy would again stress the importance of aligning policies where possible with national targets and policies to maximise efficiencies for the Victorian economy.
Victoria has choices about the emissions reduction pathway, or trajectory, to follow to reach net zero emissions by 2050. Different trajectories imply different costs and benefits over time. The Panel’s advice includes indicative trajectories to 2050 associated with its recommended targets (see figure above and Chapter 5 of the Panel’s report).

3: Do you agree with the Panel’s indicative trajectories to 2050?

The trajectories set out in the Final Report are consistent with the policy objectives to reach zero emissions by 2050. Over 2021-2030, Alinta Energy would caution against the pursuit of policies that aggressively push toward the higher end of the target band by the end of this period.

This view is driven by continued uncertainty about the impact of:

- Significant changes to existing market rules (the National Electricity Rules), including five-minute settlement, global settlement and the demand response mechanism – the market is at risk of not being able to absorb these changes optimally if further material changes in the energy market are made;
- The impact of Snowy 2.0 and further interconnection with Tasmania;
- Further deployment of storage technology and small-scale embedded generation and investment and;
- Augmentation to the existing transmission and distribution systems in Victoria and neighbouring jurisdictions. This includes the development of AEMO’s Integrated System Plan and the impact of the Coordination of Generation and Transmission Investment rule change. There are likely to be a material level additional fixed costs for large and small consumers to support the required investment in the grid to support the transition to a lower carbon intensive energy sector.

Each of these changes should be evaluated before commitments are made ahead of further material policy changes that may or may not compliment the raft of initiatives underway. To achieve the Victorian Government’s long-term objective, the policy environment at both state and federal levels needs to be flexible and stable enough to support investment to transition a low-carbon future.

Reducing greenhouse gas emissions in Victoria

4: Are there other key greenhouse gas emissions reduction opportunities beyond those the Panel identified?

Alinta Energy believes the Expert Panel has made a comprehensive assessment of realistic and practical emissions reduction opportunities that could be pursued over the interim target period.

5a: Across the Victorian economy, which activities do you think the Victorian government should prioritise in reducing Victoria’s greenhouse gas emissions?

Given the opportunities available in other sectors such as agriculture, transport and forestry, Alinta Energy believes a focus on these sectors will more equitably spread the achievement of the interim targets. The significant work and initiatives already underway in the electricity
sector require a stable policy environment (and ideally national harmonisation) in order to optimise investment decisions and absorb the transition to a lower carbon future.

Alinta Energy strongly supports the Expert Panel’s recommendation that offsets be included as part of suite of policies supporting achievement of the interim targets. An appropriate governance framework, audit and verification process for offsets will allow flexibility for a range of stakeholders to seek opportunities to reduce greenhouse gas emissions.

Close coordination between the Victorian Government with AEMO, the Australian Energy Regulator (AER) and the Energy Security Board (ESB) as required should be prioritised to ensure that transmission (and distribution) network investment is optimised as renewable generation and energy storage facilities are incorporated into a less centralised grid (both in Victoria and neighbouring NEM jurisdictions).

5b: What policies or programs are needed to drive these emissions reductions?

The Victorian Government has legislative and regulatory powers over sectors outside of energy that do not require Federal oversight, which provides it with the opportunity to develop policies that will minimise any economic impacts to these sectors. Other stakeholders will have a better understanding of policy options that are most appropriate for these sectors.

Benefits of reducing greenhouse gas emissions in Victoria

7: In addition to those identified by the Independent Expert Panel (see Chapter 7 of the Panel’s report), are there other key benefits of reducing greenhouse gas emissions?

Alinta Energy recognises the challenge of climate change and the need for global action to address the risks it carries. The Expert Panel has identified the key benefits of reducing greenhouse gas emissions, but we would support comments and concerns expressed by the Australian Energy Council in its submission on the Final Report regarding the costs of water consumption and air pollution from electricity generation, particularly in relation to the Latrobe Valley.

Barriers to reducing greenhouse gas emissions in Victoria

9: From your experience, are there any barriers to reducing Victoria’s greenhouse gas emissions that the Independent Expert Panel didn’t identify?

As noted above, Alinta Energy believes that a coordinated, nationally consistent approach is the optimal policy framework to address reductions in greenhouse gas emissions. The absence of such a framework has resulted in barriers, increased investor uncertainty and stifled innovation over an extended period of time. Recognising that Victoria has legislated its own emissions reduction targets, we urge the Victorian Government to maximise

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harmonisation with Federal and other state government policies where possible to reduce these material barriers to innovation and investment certainty.

10: Of all the barriers, which are the most important to address and why?

See our response to question 9 above.

11: How can the key barriers you identified in Question 10 be overcome?

Impacts of greenhouse gas emissions in Victoria

As raised in our response to the Issues Paper and above, one policy solution to reduce existing barriers could include incentives for industry and research development to identify and implement solutions that will ease the transition to a lower carbon future as implied by the interim targets.

Impacts of reducing greenhouse gas emissions in Victoria

12: In addition to those identified by the Independent Expert Panel (see Chapter 7 of the Panel’s report), are there other impacts of reducing greenhouse gas emissions?

Alinta Energy believes adjustment costs and transition to lower CO₂-e emissions should not be underestimated. The Expert Panel note the uncertainty involved in relation to the economic impact of transitional costs and the advantages of a steady trajectory (with flexibility in the target range as noted above) to minimise such transitional costs, particularly in regions most affected.²

13: Of all the impacts, which are the most important to address and why?

Given the uncertain impact of policies on different sectors and communities within the Victorian economy, any further policies considered by the Victorian Government should be evaluated against a cost-benefit framework that assesses the impact of policies on regional communities that are transitioning to a low carbon future, the impact on investment decision making and the risk of carbon leakage to other parts of Australia and allowing industries time to absorb the significant policy and rule changes that are already committed to or being implemented.

14: How can these impacts be addressed?

Alinta Energy would encourage meaningful and extensive consultation between the Victorian Government and affected stakeholders prior to the development of any new policies and also consider the latency associated with existing policies in achieving the

interim targets (for example, the impact of proposed and committed renewable energy
generation already in the investment pipeline in Victoria). Keeping an agnostic stance
toward the use of a suite of policy solutions that complement national policies to the
maximum extent (including offsets for example) and supporting industry research and
development) will reduce the impact on the Victorian economy.