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Expert Panel on Interim Targets
Department of Environment, Land, Water and Planning
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Submitted via email: climate.change@delwp.vic.gov.au

Interim Emissions Reduction Targets for Victoria (2021-2030)

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Expert Panel's *2018 Interim Emissions Reduction targets for Victoria 2021-2030 (Issues Paper)*. Alinta recognises that climate change is a global challenge and supports measures to progressively reduce carbon emissions.

Meeting Australia's emission reduction commitments will require a transition over several decades and needs to be facilitated by a long-term bipartisan policy framework that balances stability and predictability with flexibility. As an active participant in energy markets across Australia, Alinta has a direct interest in ensuring Victoria's emissions reduction targets remain valid over time.

In this regard, Alinta suggests the expert panel should focus on the following areas to guide and inform any recommendations which arise from the Issues Paper:

1. A singular overachieving national clean energy policy should be adopted. To the extent that Victoria prefers to implement individual state based schemes, they should seek to be complementary to national policies.
2. Victoria should set more lenient interim targets through to 2030 with options for flexible compliance, allowing for more ambitious and cost effective targets to be set post 2030.
3. Victoria's emissions reduction leadership should be accompanied by analysis on the impacts that this may have on other State's behaviour.
4. Detailed economic cost modelling should be undertaken so that the full associated cost impacts for Victorian households and businesses are taken into consideration.
5. Mechanisms which incentivise industry led research and development of medium term solutions transition solutions should be encouraged.

These positions are further explored in greater detail below.

1. *Who is Alinta?*

Alinta 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 1,070MW of thermal generation facilities, and in excess of 920,000 electricity and gas customers including more than 417,000 in east coast markets.

Alinta is committed to renewable energy development and is actively growing its renewables position with a public commitment to reach 1000MW of renewable capacity by 2020. Recent, projects of note include:

- Alinta entering into a binding agreement to acquire an option over the rights to 300MW Yandin Wind Farm development in Western Australia;
- Alinta entering into a conditional power purchase master agreement for over 35MW of wind power from six small wind farms in Victoria, which will come on-stream during 2018; along with a 58MW solar offtake in Queensland; and
- Alinta entering into a long-term (12 year) offtake agreement with APA Group that will underpin the construction of the 130MW Badgingarra Wind Farm in Western Australia.

The diversity of Alinta's portfolio, its investment strategy, product offerings, and first hand experiences has allowed it to develop a detailed understanding of the risks and opportunities presented by emissions reduction targets, while maintaining a strong economy and realising the benefits of the transition to a lower emissions future. Alinta is therefore well placed to provide informed comment to the Issues Paper

1. *Single National Clean Energy Policy*

Alinta operates across the NEM, in the Western Australian Wholesale Energy and has significant energy interests in the North West of Western Australia and as such is exposed to regulatory developments across all levels of government and is witness to various overlapping policy and regulations. Of late, this is especially true in the clean energy (renewables and energy saving) policy area.

The quality and stability of regulatory decision making is vital for the electricity sector given the long asset lives and the impact of regulatory uncertainty can have on the willingness for investors to commit significant capital.

Several State and Federal Government bodies have established (or are in the process of establishing) their own emission reduction schemes, renewable energy and energy saving targets. Although Alinta supports providing incentives for clean energy investment, it believes this would be most efficiently and effectively achieved through a single national program. This avoids complex interactions between various programs that could create distortions, increase uncertainty and further deter investment.

Whilst Alinta is cognisant of the Victorian Government's commitment to emissions reduction targets, in Alinta's view a co-ordinated and integrated, long-term clean energy policy, which takes account of all options, opportunities and challenges, and has a firm bipartisan commitment from both the federal and state governments, will deliver the best results for consumers in the long term.

Nonetheless, to the extent that Victorian Government wishes to implement individual state based schemes, they should seek to be complementary to existing or future national policies.

Australia requires a single, stable, national and bipartisan clean energy policy environment, where participants can be confident making significant and long-term investment decisions

2. Setting Flexible Interim Emission Targets

Alinta understands the Expert Panel has been tasked with providing advice on Victoria's interim target recommendations for 2021-25 and 2026-30 as well as providing indicative trajectories to meet net zero emissions by 2050.

It is Alinta's view that climate and environmental policies must be developed with consideration to energy markets and the achievement of the long term objectives of the energy sector. At a minimum, policies should be developed with a recognition of the impacts they may have on the energy sector, including on existing investment.

Given the above, Alinta would caution against setting an ambitious or inflexible Victorian emissions reduction target in the initial periods out to 2030. In general this means more lenient interim targets being set in initial years, providing more time for cost effective abatement technologies to be developed and subsequently allowing for the market to adjust for ambitious future years targets post 2030.

However, if the Expert Panel is minded to establish interim targets above those which broadly follow the Paris commitment, the trajectory should be set with several flexible options for managing over/under compliance. In this regard, Alinta suggests the Expert Panel should focus analysis on assessing the benefits of flexible compliance target options including:

- Carrying forward overachievement – allowing Victoria to carry forward a portion of previous year's overachievement for use in the next compliance year.
- Deferring compliance – deferring obligations up to a limit (eg 15% of emission reductions in a given compliance target period can be deferred to the next compliance target period).

In Alinta's view more lenient interim targets set in initial years and flexible compliance options, like those mentioned above, would crucially allow for cost effective abatement options to be developed in the initial periods out to 2030. Allowing for ambitious and economically effective abatement targets post 2030.

To ensure lower energy costs for consumers, Victoria requires lenient interim targets in initial years to 2030 with options for flexible compliance

3. Victoria's Commitment

Alinta notes the Expert Panel's view that achieving global emission reductions is in Victoria's interest. This principle is reflected in actions taken to date; however, in practise assessing the associated cost obligations Victoria should undertake in achieving this task remains contentious.

As noted in the Issues Paper, combating global warming is an inherently all-inclusive undertaking requiring collective emissions reductions from the international community as part of a collective solution. Nonetheless, Victoria setting ambitious policy objectives above collective global action, whilst well intentioned, comes with a corresponding cost for Victorian energy consumers; and may in fact encourage other Australian States to "free ride" on Victoria's efforts in reducing global emissions.

Free riding States could effectively engage in strategic behaviour by undertaking only modest emission reductions whilst gaining benefits through Victoria's more significant reductions.

This may happen when individual States' incur a "leadership premium" and reduce their emissions in the absence of global/national consensus, which incentivises other States to effectively undercut collective action and "free ride" on these emission reductions. This puts those States incurring the "leadership premium" at an economic disadvantage.

Options to enlarge Victoria's ambitious leadership on this issue should be accompanied by a comprehensive analysis on potential effects this may have on other State's behaviours

4. Detailed Modelling

Alinta notes the Issue Paper's observation that "*the international community, agreed through the Paris Agreement to limit global average temperatures to below 2 degrees*". To the extent of this commitment, Victoria is only a component of a global solution.

Australia, it should be noted, has undoubtedly has shown singular commitment in meeting international emission reductions objectives. This includes:

- setting an ambitious Renewable Energy Target;
- constructing a government funded Clean Energy Finance Corporation;
- establishing a national Emissions reduction Fund programme;
- establishing a government funded Australian Renewable Energy Agency;
- the detailed design of the National Energy Guarantee, earmarked to be fully established by 2020; and
- the formation of various and numerous other national/jurisdictional green schemes and energy efficiency programs.

However, the establishment of such programmes have not been free of cost. Whilst the benefits of being a global leader in promoting emission reduction policies are often widely promoted, the corresponding costs and price impacts on consumers can often risk being overlooked.

As such, Alinta would encourage the Expert Panel to identify and undertake detailed economic modelling of the cost impact placed on Victorian households and businesses associated with meeting Victoria's proposed emission reduction targets. Such a modelling exercise should also focus on the impact Victoria's emission reduction targets may have on the useful life of existing generation assets, many of which currently have forecast decommissioning between 2030-2040. Crucially this modelling could help inform the level of Victoria's interim target commitments.

Detailed economic cost modelling should be undertaken so that the full associated cost impacts for Victorian households and businesses are taken into consideration

5. Research and Development

Innovation and technological advancements are central to meeting Victoria's emissions reduction commitment and although renewables technology is currently evolving at a rapid scale, there is still a strong need for conventional generation that can dispatch on demand and provide inertia and ancillary services in the medium term.

To that effect, significant and various workstreams are currently being undertaken by the Australian Energy Market Operator, the Australian Energy Market Commission, the Australian Energy Regulator and the Energy Security Board in encouraging generation solutions which meet Australia's medium term energy and reliability transition requirements.

It's important that the interim emission targets for Victoria does not interfere with these workstreams, but rather complements them. Alinta would also encourage the Expert Panel to consider mechanisms which incentivise industry to research, develop and implement technical solutions that will ensure grid stability in a low emissions environment.

These programs should include supporting research and development into technologies that will allow renewable energy to continue to grow without causing unacceptable risks to energy security, as well as rewarding investors through market mechanisms.

The expert panel should concentrate analysis on ensuring Victoria's emission reduction commitments act to complement existing workstreams. Where further work is required, incentivising industry led research and development of medium term solutions transition solutions should be encouraged.

6. Conclusion

Alinta suggests that in the pursuit of broad environmental policy goals, that a credible starting point is as important as the intended policy outcome. On this basis, Alinta welcomes the Expert Panel's analysis and encourages further consideration of the matters set out below in the context of the current political and economic environment:

1. A singular overachieving national clean energy policy should be adopted. To the extent that Victoria prefers to implement individual state based schemes, they should seek to be complementary to national policies.
2. Victoria should set more lenient interim targets through to 2030 with options for flexible compliance, allowing for more ambitious and cost effective targets to be set post 2030.
3. Victoria's emissions reduction leadership should be accompanied by analysis on the impacts that this may have on other State's behaviour.
4. Detailed economic cost modelling should be undertaken so that the full associated cost impacts for Victorian households and businesses are taken into consideration.
5. Mechanisms which incentivise industry led research and development of medium term solutions transition solutions should be encouraged.

Alinta looks forward to participating in the ongoing consultation process. Please contact Mr Anders Sangkuhl via email: anders.sangkuhl@alintaenergy.com.au or by phone 09 9375 0992 if you have any queries in relation to this submission.

Yours sincerely



Jacinda Papps

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