

10th July, 2018

Dr Kerry Schott
Independent Chair
Energy Security Board
By Email: info@esb.org.au

Dear Dr Schott,

RE: Draft Detailed Design of the National Energy Guarantee: Consultation Paper.

Thank-you for the opportunity to contribute further to the design of the National Energy Guarantee (NEG).

Manufacturing Australia (MA) is led by the Chief Executive Officers of Australia's largest, locally-headquartered, manufacturing companies: Adelaide Brighton, BlueScope, Brickworks, Capral, Cement Australia, CSR, DuluxGroup, Incitec Pivot, Orora, Rheem and Tomago Aluminium. MA member companies employ around 50,000 people directly, and operate some 300 plants or smaller facilities, predominantly in outer suburban and regional communities, around Australia.

Large energy customers like members of Manufacturing Australia are fundamental to an effective and lasting transition in Australia's energy sector towards lower emissions technologies: they underpin investments in renewable and lower emissions electricity generation through long term power purchase agreements, onsite and co-generation projects; by "load-shedding" and moderating demand when needed, they provide system stability to the National Electricity Market as it integrates more intermittent generation into a system that was not designed with these technologies in mind; and, in their own operations they invest in myriad technologies and process improvements to reduce energy consumption and emissions intensity.

As you know from previous submissions, MA supports the efforts of the Commonwealth Government and the Energy Security Board to develop a lasting, practical, energy policy framework, not just via the NEG but also via the various energy policies that interact with it. In particular, Manufacturing Australia:

- supports Australia's Paris climate accord commitment and agrees that Australia should take action to reduce emissions, in line with our global contribution to emissions.
- supports the National Energy Guarantee's high level goal of balancing the objectives of energy security, energy affordability and emissions reduction in line with Australia's global commitments;
- supports measures that seek to retain existing or encourage new, reliable, generation that can be dispatched at times when intermittent renewable generation is unavailable;
- recognises that the NEG seeks to provide greater clarity on how government policy settings will impact supply and demand-side energy investors over an extended period of time; and,
- supports efforts to achieve the above objectives at least cost, on a technology-neutral basis and with minimal cost pass-through to customers. This is essential if Australia is to regain international competitiveness in energy intensive industries.

The draft detailed design of the NEG addresses several of the questions and recommendations previously raised by MA in submissions and discussions with the ESB. This submission focuses on the outstanding questions and concerns amongst members of MA, and recommends some refinements that we contend would help to better meet the above objectives.

Treatment of EITE activities:

- MA recognises and appreciates that emissions intensive, trade exposed, activities are proposed to be exempt from the emissions requirements under the NEG. Such an exemption is fundamental to the international competitiveness of many large Australian manufacturers, and therefore a pre-requisite for MA's support for the NEG.
- MA recommends that EITE exemptions be more explicitly assured and "hard coded" into the final NEG legislation, consistent with the objective of a securing policy commitments that can withstand political cycles.

Large customer reliability obligation

- Manufacturing Australia supports the reliability obligation and recognises that its intention is to encourage investment in dispatchable generation that is needed when intermittent generation is unable to supply customers.
- However, the reliability obligation, if placed directly on large users, will see manufacturers face material risks and costs for which many are not currently resourced or experienced. Therefore, the specific design of this obligation is crucial to manufacturing competitiveness.
- Large customers (defined by the ESB as customers with peak electricity consumption of 5MW of greater) that are not direct market participants should have the flexibility to choose whether they want to manage their reliability obligation themselves, or have a retailer manage the obligation on their behalf. On that basis, Manufacturing Australia recommends that the default option should be for retailers to manage the obligation, with the option for a large customer to “opt in” if they believe they have the necessary capabilities and competencies, and would be advantaged by doing so.
- If a large user chooses to opt-in to the reliability obligation, if they do not contribute to the peak demand trigger event, they should not be unfairly penalised. The peak demand should be measured using data for the period that the trigger event is forecast to occur. Specifically, where a large customer has a seasonal load that means that it peaks in a non-trigger month, its share of the peak demand should not be inflated by measuring the allocation based on a peak demand over a whole year.

Eligible contracts:

- A key operational requirement for the NEG to work cost effectively for customers will be the nature of qualifying contracts to meet the reliability obligation, and the availability of these in a market with low levels of liquidity, significant information asymmetry and limited competition.
- Existing retail contracts and PPAs should be “grandfathered” and considered a qualifying contract for a large customer. The ESB has stated that all existing retail agreements and PPAs will be grandfathered if they were entered into prior to 20 April. These grandfathering provisions should apply until the NEG is legislated, or at least the beginning of the financial year in which it is legislated, which in practice would mean grandfathering to July 1st 2018 (assuming the NEG is legislated in FY18/19).
- The NEG should not require a large customer to purchase more electricity than they actually consume. The NEG should differentiate qualifying contracts that relate specifically to large customers given that large customers sole purpose for entering into electricity contracts is purchasing electricity that they consume.
- A large customer’s power purchase agreements that have been firmed via a retailer should be considered firm under a reliability obligation for a large customer’s reliability obligation.
- It remains unclear exactly what impact the increase and deepening of contracting will have on market competition, particularly what measures are being taken to understand the impact on competition in the wholesale market and spot market liquidity.
- The “Market Liquidity Obligation” appears to be a response to this, which MA supports. However, in order to be effective this relies on an effective market where contracts, price caps and other market/risk management contracts are readily available and reasonably priced. Vertically integrated retailers should be required to offer contracts under the Market Liquidity Obligation at market reflective pricing.
- Historically, in South Australia in particular, this market has been weak and customers have had to use expensive insurance products to manage risk. MA remains concerned that manufacturers needing to cover peak loads and peak under contract may still find themselves with a lack of counterparties from whom to buy that cover.
- MA seeks the opportunity for further input to the ESB on the nature of eligible contracts to meet the reliability obligation.

Finally, I would offer a broader comment on the importance of maintaining industrial, political and bureaucratic focus on other measures that are essential to lowering energy costs in Australia while achieving reliability and emissions reduction objectives. The National Energy Guarantee cannot and should not be expected to be the sole definer of all market outcomes. Manufacturing Australia urges Federal and State Governments to support measures to increase gas supply and gas suppliers, and to continue monitoring market structure and competitiveness in the electricity market and the effectiveness of electricity market rules.

Should you wish to discuss any part of the following submission, please don’t hesitate to contact me.

Yours sincerely,



Ben Eade
Executive Director
Manufacturing Australia