

23 May 2014

Emissions Reduction Fund Submissions
Department of the Environment
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Lodged by email: emissions-reduction-submissions@environment.gov.au

ENA Response to Emissions Reduction Fund Exposure Draft Legislation

The Energy Networks Association (ENA) welcomes the opportunity to make a submission on the Emissions Reduction Fund (ERF) Exposure Draft Legislation.

The Energy Networks Association (ENA) is the national industry association representing the businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia. ENA members own assets valued at over \$100 billion in energy network infrastructure.

This submission is provided further to the ENA submission to the ERF Terms of Reference (ToR) in November 2013 and the ERF Green Paper in February 2014. The ENA continues to affirm support for an ERF that:

- is technology neutral with the appropriate supporting methodologies;
- allows for aggregation of small units and assignment of abatement to an aggregator which should have legal ownership over the rights to abatement; and
- where rights to abatement are transferrable to third parties.

The ENA however has concerns over:

- safeguarding provisions; and
- the processes and timeframes to develop new methodologies under the ERF.

Development of Direct Action 'safeguards' and penalties

The ENA notes that the Emissions Reduction Fund Exposure Draft Legislation does not include any discussion of safeguards and that, due to industry concerns, the development of safeguarding provisions has been delayed until late 2014 at the earliest. However ENA is concerned that the Government appears committed to the development of safeguard baselines for businesses that have scope 1 emissions levels over 100,000 tonnes of CO₂e-. This level would include ENA member businesses currently reporting under the *National Greenhouse and Energy Reporting Act 2007* (the NGER Act).

The ENA reiterates that it does not support the application of safeguards, baselines or penalties to network businesses. As noted in ENA's November 2013 and February 2014 submissions, losses in gas networks and electricity are an inherent part of the operation of a network to which existing incentives already apply.

Gas networks are already subject to direct financial penalties in the form of having to 'make good' fugitive emissions that come from leaks in the distribution system. As a result, gas distribution network service providers continually seek to minimise such losses. Similarly, existing regulatory frameworks require electricity transmission and distribution network service providers to manage networks and make efficient network investments which include consideration of losses. Investments in reducing losses beyond a value that is economically efficient to attain would ultimately increase end user energy prices and network businesses are acutely aware of impacts on energy affordability. ENA notes that the Australian Energy

Regulator concluded in 2009 that it would not be appropriate to apply a new efficiency mechanism to distribution losses in the absence of "...evidence that distribution losses are deviating from efficient levels."¹

Electricity and gas networks were excluded from the Commonwealth's Energy Efficiency Opportunities program (EEO) on the basis of analysis that showed that '*industry trials show the scope for improved, economically viable, transmission and distribution energy efficiency is limited and the EEO Program is unlikely to result in a significant reduction in network losses relative to a baseline case*'².

The ENA is concerned that growth in a gas network will necessarily create emissions over and above an initial safeguard level in absolute terms. Growth of a network does not infer deterioration in energy efficiency however the application of a safeguard to distribution of gas would place an additional constraint on the expansion of gas distribution networks to provide efficient, relatively clean energy in growing markets. A constraint on the growth of gas networks has the potential to increase rather than reduce Australia's overall emissions profile. It would be of concern if a safeguard framework provided a financial deterrent to growth effectively introducing a carbon pricing regime for such emissions in the absence of a comprehensive policy framework. This is particularly problematic if an absolute safeguard limit is used, rather than a limit on relative emissions intensity.

If a safeguard was to apply for gas distribution sector, this would have significant impact on the investment of plans of businesses and expectations of customers. The ENA reiterates that policy consideration should also take into account the significant forewarning to business and the community and provide policy clarity on how the safeguard framework is to apply in order to mitigate investment uncertainty.

The processes and timeframes to develop new methodologies under the ERF.

In its previous submissions the ENA has outlined the case for the inclusion of household abatement in the ERF in the form of the replacement of electric resistance hot water systems with gas hot water heating. The ENA notes that the current list of priority methodologies does not include a methodology that would assist existing households make choices to contribute to reducing Australia's emissions under the Emission Reduction Fund. The ENA argues that there are proven methodologies for assessing abatement that can be adopted very quickly using existing technologies.

The abatement methodologies in use in South Australia's REES and Victoria's VEET were reviewed on behalf of the then Departments of Climate Change and Energy Efficiency and Resources Energy and Tourism as part of the consideration of a national white certificate scheme. These reviews showed that the methodologies were credible and did not identify any reason that either the VEET or REES approach could not be used nationally.

The administrator of the ERF can therefore rely on already proven methodologies without having to spend valuable efforts on developing new ones. This allows activity level abatement to be the basis of bids in the first year of the ERF. Delaying the availability of activity level methodologies significantly reduces the ability of the ERF to meet targets as, in many cases, activity level abatement could be available as soon as the methodologies are approved for use in the ERF.

The ENA suggests that the ERF should provide processes to facilitate:

- an effective and timely process to assess and approve appropriate and robust methodologies;
- an approval process for methodologies that allows for already existing methodologies to be utilised and leveraged – in particular those that support household level abatement activities to take part in the ERF.

¹ Page 17, Explanatory Statement to the Proposed Electricity Distribution Network Service Providers Efficiency Benefit Sharing Scheme <http://www.aer.gov.au/sites/default/files/Proposed%20Efficiency%20benefit%20sharing%20scheme%20explanatory%20statement%20-%20April%202008.pdf>

² Page 12, Regulation Impact Statement on extending Energy Efficiency Opportunities to Energy Networks, Department of Resources, Energy and Tourism, July 2013. <http://ris.dpmc.gov.au/files/2013/07/EEO-to-energy-networks-RIS.pdf?v=1>

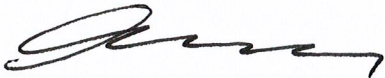
Summary of ENA position

The ENA does not support the application of safeguards and penalties for gas or electrical network businesses under the direct action plan.

The ENA supports an ERF design that is *technology neutral*, allows for deeming and aggregation, and leverages robust and proven methodologies where possible to ensure that genuine abatement is achieved.

Any questions about our submission should be addressed to ENA's Director of Energy Infrastructure and Gas Markets, Dougal Torrance, by email to dtorrance@ena.asn.au or by telephone on (02) 6272 1511.

Yours sincerely



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