21 September 2015

Emissions Reduction Fund submissions
Safeguard Mechanism Branch
Department of the Environment
GPO Box 787
CANBERRA ACT 2601
via email: emissions-reduction-submissions@environment.gov.au

Dear Sir/Madam

Exposure Draft Rules: Safeguard mechanism

The Energy Networks Association (ENA) welcomes the opportunity to make a submission to the Australian Government on the Exposure Draft Rules supporting the implementation of the Emissions Reduction Fund (ERF) Safeguard Mechanism released on 2 September 2015.

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 and operate energy network infrastructure assets valued at over $100 billion.

The ENA supports the implementation of robust carbon abatement policy including national targets which are determined based on the best available science and mechanisms which are 'technology neutral' and outcomes-focused, thereby minimising unnecessary economic distortions to achieving efficient abatement.

ENA provides this feedback in the context of detailed comments provided on the March 2015 Consultation Paper on the Safeguard Mechanism. At that time, ENA identified concerns that the safeguards mechanism proposed would impose compliance costs or penalties on gas networks due to organic growth which causes an exceedance in an absolute emissions baseline, rather than emissions intensity. The ENA has noted that, in these circumstances:

- the network service provider has no ability to limit the organic growth in emissions to the baseline level;
- the network service provider is already significantly incentivised to minimise fugitive emissions, as recognised by the Australian Energy Regulator and the review of the Energy Efficiency Opportunities (EEO) program; and
- increased gas network utilisation, infill or extension represents is generally positive to customer energy affordability and Australia's emissions intensity.

The ENA welcomes the stated policy intent in the Consultation Documents to address circumstances of incremental growth in emissions above the baseline due to economic growth and other circumstances where historical baselines are not representative of future emissions performance.

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"Baselines for existing facilities will reflect the highest level of reported emissions over the historical period from 2009-10 to 2013-14, and ***will be adjusted to accommodate economic growth****, natural resource variability* ***and other circumstances where historical baselines are not representative of future emissions performance*** [emphasis added].

Draft Explanatory Statement, p.7

However, this is not what is achieved by the current Draft Rule which provides that the variation would only be temporary, *"...so that emissions intensity must be continuously improving to justify ongoing baseline adjustments."* (ibid, p.11).

The Emissions Intensity Test provided at s.41 of the Draft Rules does not permit the adjustment of the baseline to simply reflect economic growth, such as the efficient incremental growth of gas network utilisation and/or connections. Rather, it explicitly imposes a requirement for a continuous reduction in emission intensity to avoid exposure to penalties under the Safeguard in circumstances of incremental growth which may be beyond the control of the gas network service provider.

As noted in the previous ENA submissions to the Department, the existing strong financial incentives to minimise gas network losses have been recognised by independent reviews. The Australian Energy Regulator (AER) 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] The Energy Efficiency Opportunities (EEO) program decided not to include gas or electricity networks after a series of trials by Sapere Research Group in July 2013 which found that:

> *...the opportunities to reduce fugitive emissions beyond the systematic replacement of mains the distributors are currently doing are immaterial.* [2]

Despite every incentive, a gas network operating efficiently is unlikely to be in a position to maintain perpetual, year on year, improvements in emissions intensity and may exceed the absolute emissions baseline due to incremental growth.

If the Safeguard Mechanism Draft Rule retains this approach, the consequence would be higher cost outcomes to future gas users even where emissions intensity has not increased.

The ENA notes that the approach to circumstances of incremental growth is inconsistent with the approach adopted in relation to significant expansions. The Draft Explanatory Statement states that: *"To support economic growth, baselines will be permanently increased if a facility undertakes a significant expansion..."* The Department's consultation documents provide no policy logic which would justify a *permanent* adjustment to the baseline for a significant expansion, while only permitting a *temporary* adjustment where exceedance is due to incremental growth. The ENA considers the need to support economic growth would apply equally under both circumstances.

The ENA welcomes the opportunity to participate in development of the Safeguard Mechanism, if you have any questions please contact me on 02 6272 1555.

Yours sincerely

John Bradley
Chief Executive Officer

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[1] Page 17, Explanatory Statement to the Proposed Electricity Distribution Network Service Providers Efficiency Benefit Sharing Scheme, AER 2008.
[2] Page 14 Ibid