

6 July 2018

The Hon Josh Frydenberg MP
Minister for the Environment and Energy
PO Box 6022
House of Representatives
Parliament House
Canberra ACT 2600

By email: NationalEnergyGuarantee@environment.gov.au

Dear Minister,

National Energy Guarantee Draft Detailed Design Commonwealth Elements

The Property Council of Australia welcomes the opportunity to comment on the Commonwealth's Consultation Paper '*National Energy Guarantee: Draft Detailed Design for Consultation – Commonwealth Elements*' and provide feedback on aspects of the draft detailed design.

The Property Council is the peak body for owners and investors in Australia's \$670 billion property industry. We represent owners, fund managers, superannuation trusts developers and investors across all four quadrants of property investments: debt, equity, public and private.

The property industry has traditionally been a more passive participant in energy markets. Rising wholesale energy costs and an absence of sound policy and market settings has resulted in unprecedented pressures on the costs and availability of electricity and gas for our members' operations, as well as hindering the ability of the sector to become more active participants in energy markets and make the transition to net zero emissions. This is consistent with the strong sustainability mandate of leading members, many having carbon neutral targets or net zero emissions targets well before 2050.

The Property Council believes that the primary objective of energy markets should be to serve the long-term interests of the consumer as stated in the National Electricity Objective (NEO) and National Gas Objective (NGO). In the last decade, Australia has lost its advantage in reliable and competitively priced energy due to the ongoing and highly partisan debate on energy and climate change policy.

We support the objectives of the National Energy Guarantee (NEG) to depoliticise energy policy in Australia and to integrate energy and climate policy. This integrated approach should also be reflected in the NEO and NGO, which should be amended to include an objective to reduce emissions over time, in line with our international commitments.

To achieve our commitment to the Paris Agreement, a coherent emissions reductions framework for the broader economy will be essential and will require effective collaboration with other key sectors, including the built environment.

Attached to this letter we include a submission with detailed responses to questions raised in the consultation paper. Please do not hesitate to contact us and arrange a meeting.

Yours sincerely



Ken Morrison
Chief Executive

Responses to Consultation Paper Questions

Setting and reviewing the electricity emissions target

Question: Stakeholder views are sought on the Government's proposed approach to setting the initial electricity emissions targets under the Guarantee.

The Property Council:

- believes the emissions requirement needs to be set at a level that is credibly in line with Australia's commitment to the Paris Agreement, which is to limit greenhouse gas emissions so that global warming is kept below 2 degrees Celsius with a stretch goal of keeping it below 1.5 degrees Celsius. Australia's current emissions reduction targets are not sufficient to meet this objective, which at a minimum requires Australia to reach net zero emissions by 2050. We therefore recommend a long-term emissions reduction target for the electricity sector is set for net zero emissions by 2050
- recommends a trajectory for emissions reduction in the electricity sector is set out to 2050 that allows for increased ambition and faster decarbonisation. The ability to increase the ambition of a trajectory should recognise changing technology costs over time as well as the need for the electricity sector to play a leading role in the broader economy's transition to net zero emissions. The built environment comprises 23% of Australia's emissions, over half Australia's electricity consumption and represents some of the lowest cost emissions abatement. The sector is committed to achieving net zero emissions through a mix of energy efficiency, fuel switching and renewable energy generation. Recent work completed by the Australian Sustainable Built Environment Council (ASBEC) looked at the potential for emissions reduction in the sector through increases to minimum energy performance standards in the National Construction Code¹. ASBEC found that by 2030, conservative improvements in the Code energy efficiency requirements could deliver between 19 and 25 per cent of the energy savings required to achieve net zero energy in new residential buildings, 22-34 per cent of the required energy savings for commercial sector buildings, and 35-56 per cent for public sector buildings. This paves the way for a 'zero carbon ready building code' but also identifies that further action beyond just energy efficiency will be required for the built environment sector to get to net zero. It is therefore important that the electricity sector, which provides pathways for other sectors to reduce emissions, including the built environment and transport, to take a leadership role and provide for increased ambition over time

¹ ASBEC 2018 *Built to Perform: An industry led pathway to a zero carbon ready building code*

- agrees with the Commonwealth's proposed approach of expressing the emissions targets in Commonwealth legislation as a table of annual emissions per MWh targets, but suggest this is done with reference to a longer-term target of net zero emissions by 2050, with flexibility to review the trajectory to allow for increased ambition
- agrees with the Commonwealth's proposed approach that the National Electricity Law (NEL) should adopt the initial ten years of targets set in Commonwealth legislation for the Guarantee, in accordance with the above points.

Question: Stakeholder views are sought on the Government's proposed approach to amending targets and setting future targets under the Guarantee.

The Property Council:

- agrees with the concept of locking in 5-year targets (where emissions reduction targets will not change once put in place) while forecasting the next proposed 5-year milestone further down the track. These forecasts should have the ability to be adjusted in line with the recommendation to revisit the ambition of the long-term trajectory towards net zero emissions
- supports the ability for a long-term emissions trajectory to be adjusted at agreed review points to allow for faster decarbonisation based on changing economic viability of generation technologies
- agrees with the target setting to initially be 10 years and then subsequently 5-year periods synchronised with the timelines required for updating commitments under the Paris Agreement.

External Offsets

Question: Stakeholder views are sought on whether market customers should be able to use offsets to reduce part of their emissions under the Guarantee.

The Property Council:

- believes the intention of the NEG is to provide an appropriate signal to the Australian **electricity sector** for investment in new generation and guide the transition of this sector towards a long-term emissions reduction target. In that context, the use of international carbon offsets will undermine the aim of the policy and act to divert funds outside Australia that would otherwise be used to fund investment in new generation domestically

- suggests provision is made, within the framework of the emissions requirement, for the future use of certificates from domestic energy efficiency projects through state and territory-based white certificate schemes. While the Commonwealth's current emissions reduction target of 26% by 2030 for the electricity sector is too low to achieve Australia's commitments under the Paris Agreement, provision for the inclusion of energy efficiency should be built into the scheme so that in the longer term, demand side initiatives can be effectively integrated into the NEG. This is consistent with a recommendation from the Climate Change Authority in its 2017 review on Australia's Climate Goals and Policies²
- strongly disagrees with the use of international or domestic carbon offsets by retailers to meet any portion of their emissions requirement under the NEG. We support the inclusion of other flexible compliance options such as carrying forward overachievement and deferring compliance, as well as the possible use of energy efficiency certificates in future. We question the rationale for the use of offsets with other flexible compliance options available, as is currently the case under the RET.

Question: Stakeholder views are sought on the proposed approach to using offsets to be used for compliance under the Guarantee.

The Property Council strongly disagrees with the use of any international or domestic carbon offsets by retailers to meet any portion of their emissions requirement under the NEG. As expressed by large Australian energy retailers including Origin, the use of offsets would act to undermine signals to invest in new low emissions and reliable generation.

² Climate Change Authority 2017, *Special Review on Australia's Climate Goals and Policies*, Recommendation 4, p. 69