

VCMA submission on the NEG

Energy Security Board
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Submission to *Energy Security Board* on the Draft Detailed Design Consultation Paper on the National Energy Guarantee (15 June 2018)

The Voluntary Carbon Market Association (VCMA) is making this submission in response to the ESB's Draft Detailed Design for the National Energy Guarantee (NEG). The substantive part of our submission is focused on the treatment of voluntary action and capacity for emissions accounting under the NEG.

About the VCMA

The VCMA promotes and supports voluntary action on climate change through creation and operation of mechanisms that encourage and formally recognise voluntary abatement by individuals and organisations beyond national targets and international obligations.

The VCMA is an independent not – for - profit organisation established in 2008 and represents all aspects of the voluntary market including businesses, local governments, traders, carbon accountants, communities and government agencies taking action on climate change, and, making environmental claims by purchasing carbon abatement.

We are working to ensure the voluntary market is credible and accountable so that investment made in a low carbon future delivers real, additional abatement.

NEG Design

The structure of the NEG is highly problematic as it doesn't seem to accommodate the numerous activities that currently occur through what is termed Voluntary Action. These are activities and transactions which occur outside of government mandated targets and can be driven by personal or community desire for a better environment, altruism, environmental branding of products to either meet internal corporate philosophy or external customer requirements. They may also deliver economic and other benefits to society.

GreenPower®

Worldwide convention currently allows for the environmental attribute of electricity to be recognised and traded separately from the power attribute. In Australia, Renewable Energy Certificates (RECs, a generic term for STCs and LGCs) are the instrument used to trade the environmental attribute. These RECs can be either coupled to or decoupled from the electricity supply contracts to meet a consumer's mandatory or voluntary environmental targets.

The national GreenPower® program which has existed for two decades administers the voluntary scheme.

Increasingly over the life of the program, large consumers such as property trusts, government authorities and large infrastructure projects have found it more convenient and more economical to purchase these attributes as separate (decoupled) transactions.

In particular, under the current ESB NEG design it appears that this decoupling will no longer be possible and that only voluntary action through market customers (i.e. Electricity Retailers) will be additional.

The ESB proposes to facilitate the treatment of GreenPower in the emissions reduction requirement to allow consumers to make an additional contribution to emissions reduction beyond that required by the target.

Conceptually, this would be achieved by deducting a market customer's GreenPower load and associated renewable generation occurring in the compliance year from its total load and allocated generation. Similar to the wholesale pool purchases, transmission and distribution loss factors will be applied to GreenPower loads.

Under the current functionality of the Renewable Energy Target, consumers are free to purchase renewable energy in the form of GreenPower[®], independent of their electricity retailer. They can then have the corresponding RECs retired to the CER, to ensure they cannot be used by anyone else to meet legal emission reduction obligations. This is via the voluntary surrender function within the registry.

This is important because electricity retailers often charge excessive premiums for coupled Greenpower[®] that are far higher than the price on the spot market made directly with a decoupled provider or directly with a renewable energy generator.

Decoupled GreenPower[®] is used by a number of entities to meet emission abatement commitments outside of the electricity they consume, such as under the NABERS green buildings scheme. In this case, properties purchase one-off discreet amounts in spot trades through decoupled providers at the conclusion of a NABERS rating or an annual carbon footprint assessment. Retailers are not set up for, or are unwilling to make these small one off block transactions which are often in volumes of less than 10MWh. Often when a consumer decides to make such a one off, effectively “decoupled” adjustment to their GreenPower[®] to meet a specific target, being required to do this in the past with their contracted retailer often meant that retailer resorted to gouging, applying an exorbitant premium given that the customer was effectively captured, or constrained from seeking an alternative price. The NEG therefore will return the renewable market to such non-competitive practices.

Numerous companies are currently constructing renewable generators to create environmental credits which they intend to apply to facilities which they own and or operate across the country. In particular international companies have commenced doing this in line with practices followed overseas. It appears that this will not now be possible under the current NEG design.

In fact if such a generator did not wish to sell its low emission generation to a retailer by the end of the year then it would be fined and have the abatement entitlements associated with that electricity confiscated and handed to retailer free of charge.

It would not be possible for generators or anyone else to bank the low emission generation in the registry from one year to the next. As an example, if a solar farm and were unhappy with the price retailers were willing to pay to get the abatement benefit from your generation in a year and wanted to hold onto it to wait for a better price in a year's time it would have to become an electricity retailer itself

While that itself is a significant (and in fact unnecessary) administrative burden it still requires the generator owner to sell its generation abatement benefit even if the price is unsatisfactory.

There is a need to allow parties other than retailers to be granted the abatement rights to their low emission generation by the regulator, so they can be free to do with them what they wish. This includes voluntarily extinguishing rights to make an additional contribution beyond that required by the target.

Environmental accounting and transparency.

Similarly, over the past two decades methodologies for the accounting of abatement, both created and traded, have evolved to a point where emissions audits, statements and environmental claims are now consistent and credible. Previously it was common for governments and corporations to make claims regarding their emissions (or lack thereof) which were later exposed as false or highly dubious.

Similar to earlier practices when parties attempted to account for environmental credits, the NEG appears to allow the double counting (or double selling) of LGCs. While the VCMA has yet to investigate all potential scenarios under the NEG, it appears that it may not be possible to fairly, accurately and consistently represent the impact and consequence of actions undertaken by the various participants within the electricity sector. This will have significant impact on both Australia's reputation within the broader international environmental community but will lead to perverse incentives for those actors wishing to game the system for their own financial or reputational benefit.

Again, a key principle for credible accounting is transparency. Where trading of emissions reductions and sequestration (abatement) between parties occurs, certificate registries have evolved to allow the public and third party auditors to check the veracity of the various certificates and their status (active or retired). Thus double counting of certificates and other false claims can be quickly verified and addressed with minimum cost and legal complication.

The VCMA notes that the government previously claimed it would retire international units in response to GreenPower sales. A quick check of the Australian National Register of Emissions Units is able to ascertain that no such retirements have taken place since 2013. This illustrates the importance of transparency, as well as raising the question of when the government will fulfil its commitment.

It is of serious concern (to the VCMA) that the NEG seems to have dispensed with any need for a public access registry to track creation of abatement through the electricity sector which could provide a transparent mechanism to clarify claims made by corporations and government. This is a highly retrograde step and will return us to a point where the public no longer has any faith in emission abatement-related environmental claims.

International Additionality

The ability for members of the public to become involved in emissions reduction action of their own relies heavily on them being confident that their actions or the money they spend on abatement will result in real and additional emissions reduction, with direct impact on the environment. It must not simply be absorbed into the government's own international commitments. The tendency for governments over the years to co-opt the public's voluntary actions for their own purposes is well known. As a result the public has become wary and indeed dis-incentivised to partake in such action.

As an example of this, note the fall-off in GreenPower® sales due to the lack of additionality since 2014. VCMA and others have made repeated requests for clarity, but explanations about how the government will assure the public on how additionality will be recognised have been either non-existent or, at best, inconsistent. Statements which indicate that the national target would be reduced by 8Mt to account for GreenPower sales contain no obvious accounting logic and appear totally arbitrary. For example, the allocation was cut from 15 Mt without transparent process.

Unless a transparent and logical scheme is put in place, which accounts for a one for one reduction in the government's credit allocation in response to voluntary action, the public and business will not be incentivised to act.

Instead local companies will increasingly turn to funding overseas projects where the environmental attribute of the electricity generated can be separated and applied as a recognised additional international unit, to local projects here in Australia.

The NEG design needs to include provisions that:

1. Ensure that any voluntary action involving the voluntary purchase and surrender of renewable energy and low emission generation (i) be able to be decoupled from electricity generated in Australia and (ii) is additional to that required under the target.
2. To the extent that emissions are voluntarily purchased and surrendered, then the NEG design should transparently indicate such actions within a public access registry so that the Commonwealth Government can easily calculate and cancel international permits or make other equivalent adjustments to ensure that voluntary action leads to emission reductions beyond that committed by the Government.
3. This (2) should not be done arbitrarily but on a 1 for 1 basis annually as is standard in other international jurisdictions by:
 - a. Estimating annual voluntary action,
 - b. Setting aside international units to meet this estimate,
 - c. Retiring the units at the end of the year and, once the final figure for that year is known,
 - d. Adjusting for the difference by setting aside more (or less) units for the following year along with those to meet the revised estimate for that following year.

Yours faithfully



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