

Coalition Senators' Interim Dissenting Report

1. Introduction

1.1 The energy sector is essential to Australian's wellbeing and standard of living, and plays a pivotal role in Australia's ongoing prosperity. Energy security must be government's number one priority. The transition to a lower emissions economy must be done in a way that maintains a secure and affordable energy supply to industry and households while transitioning to a lower emissions economy.

1.2 The bringing together of the Environment and Energy portfolios under the Federal Minister for the Environment & Energy in August 2016 is facilitating the integration of climate change and energy policy with the central aim to keep energy secure, reliable and affordable whilst achieving emissions reductions.

1.3 The Federal Government, through the COAG Energy Council, is working with state and territory governments to address the challenges of a transforming energy sector. At the extraordinary COAG Energy Council meeting called by the Federal Government in the wake of the South Australian blackout, all governments agreed energy security is the number one priority.

1.4 The Coalition Senators do not support the Interim Report Recommendations.

1.5 The Interim Report does not recognise the comprehensive framework already in place including:

- ratification of both the Paris Agreement on climate change and the Doha Amendment to the Kyoto Protocol;
- Australia's ambitious and responsible target to reduce emissions by 26 to 28 per cent below 2005 levels by 2030;
- Australia is currently on track to beat its cumulative 2020 target by 78 million tonnes.
- the Emissions Reduction Fund (ERF);
- the Renewables Energy Target (RET);
- the National Energy Productivity Plan (NEPP);
- measures to support clean energy investment, including the \$10 billion Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency (ARENA);
- vehicle emissions standards; and
- a domestic phase down of hydrofluorocarbon gases as part of a recently developed global agreement.

1.6 The Federal Government, in conjunction with the COAG Energy Council, is currently developing a long-term national strategy for the energy sector through the Finkel Review. A preliminary report will be considered by COAG leaders in

December before a final report to the Energy Council and COAG leaders in April 2017.

1.7 In addition, the Government and the COAG Energy Council has measures underway to examine and advise on the broader issues facing the national energy system including gas, batteries, interconnectors, governance (Vertigan Review), South Australian system black reviews, and future power system security and market frameworks.

1.8 The existing comprehensive framework and review measures will deliver the certainty for industry and households, and ensure the nation's energy system remains secure, reliable and affordable as Australia transitions to a low emissions future.

1.9 The Coalition Senators recognise that all parts of the economy will need to contribute to Australia meeting its emissions reductions targets alongside of the energy sector. They also recognise that the Australian energy market is already in transition on both the supply and demand sides.

2. Australia's Energy Market Transition

2.1 Eight of Australia's 12 most emissions-intensive power stations have closed in the last five years, with the Hazelwood announcement being the ninth.

2.2 Coal has gone from 75 per cent to 60 per cent of the energy mix since 2004.¹

2.3 Renewables have gone from 8 per cent in 2004 to 15 per cent today, growing to around 23 per cent in 2020.

2.4 With emerging technologies such as battery storage, smart meters and electric vehicles added to the mix, it is clear the energy market will be fundamentally different in 2030.

2.5 Notwithstanding, coal and gas provide important synchronous generation into the grid delivering stability and reliability, and therefore will continue to play a role in the country's energy system into the foreseeable future.

- In 2014-15, 42.7 per cent of Australia's national energy generation was sourced from black coal, 20.2 per cent from brown coal, 20.8 per cent from gas and 2.7 per cent from oil.
- Victoria generated almost 85 per cent of its electricity from brown coal. This is consistent with the role of fossil fuels globally as foreseen by the IEA World Energy Outlook 2016: "Countries' climate pledges signal that fossil fuels (especially gas and oil) will remain the bedrock of energy system for many decades."²

1 <http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Pages/Australian-energy-statistics.aspx>

2 WEO Executive Summary, IEA October 2016, p. 5.

3. Federal Government and COAG Energy Council Responses

a) Blueprint for the National Energy Market

3.1 The Federal Government, through its role as Chair of the COAG Energy Council, in the wake of the recent SA blackout, commissioned the Chief Scientist to lead an independent review (the Finkel Review) of the National Electricity Market and produce a security blueprint covering policy, legislation and rules. A preliminary report will be considered by COAG leaders in December before a final report to the Energy Council and COAG leaders in April 2017.

Finkel Review Purpose and Scope

3.2 The purpose of the review is to develop a national reform blueprint to maintain energy security and reliability in the NEM.

3.3 The review will draw together and build on the analysis and findings of the recent and ongoing work streams, as identified above. It will also consider any other matters and processes that may be relevant to system security and reliability.

3.4 The blueprint will outline national policy, legislative and rule changes required to maintain the security, reliability and affordability of the NEM in light of the transition taking place.

3.5 Consistent with the National Electricity Objective, the review will examine the costs and benefits, including to consumers and industry, of the options to address any current or future vulnerabilities identified in the NEM.

3.6 The Australian Government has also reached agreement for the United Kingdom, the United States and the International Energy Agency (IEA) to support Dr Finkel's review. Having input from the IEA, the UK and US into the Finkel Review will help ensure Australia is provided with the most up to date international insights into energy security issues given the common challenges posed by increasing levels of intermittent generation among other market trends affecting energy security.

b) Energy Market Transformation

3.7 The Federal Government and the COAG Energy Council has initiated a number of processes and work programs to properly understand causes of specific events as well as to examine and advise on the broader issues facing the system due to the increasing penetration of intermittent generation. These include:

- Reviews into the South Australian 'system black' event by AEMO, AER and the AEMO;
- Detailed analysis and reports by AEMO and the AEMC into future power system security and market frameworks;
- Analysis by AEMO and the AEMC into the impact of carbon mitigation policies at both the Federal and State level;
- A review of governance arrangements (Vertigan review);

- National Gas market reforms which relate to NEM security, reliability and affordability; and
- A review of the appropriateness of existing regulatory arrangements for interconnector investment.

4. Energy Market Demand Side

4.1 A major transition is taking place in the demand side of the energy market. Energy demand is decoupling from economic growth, driven by changes in the broader economy, long-term efficiency policies, new technologies such as batteries and household solar and consumer preferences. Energy efficiency offers many of the cheapest opportunities to reduce emissions and reduce household and business energy costs.

4.2 The National Energy Productivity Plan (NEPP) will play a key role in meeting Australia's 2030 emissions reduction goals and help consumers to better manage their energy costs. The NEPP is a comprehensive strategy to deliver a 40 per cent improvement in energy productivity - saving energy costs and reducing emissions.

5. Hazelwood Closure

5.1 In November, Engie and Mitsui, the owners of the Hazelwood power station announced the facility would close at the end of March 2017. The Prime Minister's Committee to co-ordinate and oversee the Federal Government's response efficiently delivered a \$43 million package to support Hazelwood Power Station workers and Victoria's Latrobe Valley community.

- The support includes \$20 million in support for local infrastructure, \$3 million to help employees and a \$20 million Regional Jobs and Investment Package to help create local jobs and growth, build a highly skilled local workforce, take advantage of export opportunities and diversify the regional economy.
- The Federal Government will work with all levels of government and the community to help the Latrobe Valley community, particularly affected workers and their families, manage the transition.

5.2 The Government has sought the advice of the independent Australian Energy Market Operator (AEMO), which manages the National Electricity Market, on how this closure will affect the secure supply of electricity.

- In 2015-16, Hazelwood met 22 per cent of Victoria's energy demand and accounted for about four per cent of firm energy capacity in the National Electricity Market.
- AEMO has advised the electricity market will continue to operate reliably after the closure of Hazelwood.

5.3 The Government also wrote to the Australian Energy Regulator to ensure the closure does not lead to unjustified price increases or allow market participants to unfairly profit.

6. Clean Energy Investment

6.1 The Government is supporting the Australia's energy transition through a range of targeted initiatives designed to help emerging technologies make the leap from demonstration to commercial implementation, at which point the market can take over.

6.2 Technology change is already driving the market with, eg, the cost of wind power dropping over 50 per cent and solar power over 80 percent.

6.3 In the past 12 months the government has settled long-term funding arrangements for the Clean Energy Finance Corporation (CEFC) and Australian Renewable Energy Agency (ARENA) as well as creating the Clean Energy Innovation Fund (CEIF).

- The Government has restored funding to the ARENA of \$800 million over the next five years.
- This is in addition to ARENA's 252 existing projects and gives ARENA greater capacity to support research and development.
- ARENA has provided \$1.2 billion in grant funding to date and this has drawn in a further \$1.6 billion from other sources.
- The Government's CEIF supports emerging technologies to become viable. Projects can be as small as a demonstration micro-grid, or as big as a concentrating thermal power plant that can provide power on-demand.
- At the more advanced end of the innovation chain, the CEFC partners with private sector investors to increase investment in clean energy technologies. The CEFC's investment commitments have now reached \$2.3 billion, contributing to clean energy deployment projects and programs with a total value of around \$5.7 billion.

6.4 In April 2016, the Government tasked CSIRO to prepare a Low Emissions Technology Roadmap. The project's two primary objectives are to identify:

- the mix of low emissions technologies in the electricity, industrial energy and transport sectors that will allow Australia to meet or exceed its emissions reductions targets; and
- the opportunities that exist for Australian industry to take advantage of the supply chains for the identified technologies.
- The project output will be a set of potential pathways by which the energy sector can deliver its share of Australia's emission reduction targets, and an accompanying analysis of these pathways.
- The report will analyse barriers and enablers to technology development, including suggestions on where to focus domestic research, where to collaborate, and where to import technologies. The report will also list options for addressing non-technical barriers (policy, regulatory and markets),

6.5 Australia joined Mission Innovation at the United Nations Climate Change Conference 2015 (COP21) in France, 30 November 2015.

- Participating countries have committed to seek to double government investment in clean energy R&D from 2015 to 2020.
- The global Mission Innovation initiative aims to accelerate, through both government and private sector action, the clean energy innovations, breakthroughs and cost reductions required to revolutionise energy systems throughout the world over the next decades

6.6 The CSIRO's low emissions technology roadmap will determine options for achieving our Mission Innovation pledge of doubling investment in clear energy research and development by 2020.

7. International Experience on Energy Transition Clean Energy Investment

7.1 Australia is not alone in facing the challenges of transition but the set of circumstances facing each country are different. The interim report refers to international examples of energy sector transitions but is based on limited analysis. The countries used as comparisons in the interim report to support the recommendations have significantly different starting positions in their energy mixes and level of integration and interconnection across wider electricity grids.

a) Germany

- Germany has increased its renewable generation, with wind and solar respectively accounting for 14 percent and 6 percent of Germany's energy mix.³ However, Germany is part of the wider European grid with many options to manage its electricity supply whilst the Australian NEM is isolated. Germany has the security and reliability offered from being part of a wider grid with a higher mix of intermittent renewables available.
- Renewable generation can supply all of Germany's power on a few days of any given year, and the country can import power from many other countries when necessary, including coal-fired power from Poland, or nuclear power from France.⁴
- The Institute of Public Affairs submission states:
Despite over 30% of German energy now being sourced from renewables, which in most markets would be considered critical mass, Germany now has the second highest residential electricity prices in Europe (just behind wind-rich Denmark), with household bills comprised of over 45% taxes and charges.⁵

3 <http://strom-report.de/renewable-energy/>.

4 <http://www.eia.gov/todayinenergy/detail.php?id=26372>.

5 *Submission 45*, p. 9.

b) Canada & UK

- Canada recently announced that it will develop more stringent emissions regulations to phase out traditional coal generation by 2030, while the United Kingdom has announced that all of its remaining coal-fired power stations will be shut by 2025.⁶
- Canada and the UK energy sectors greatly differ to Australia. Coal generation supplies only nine per cent of Canada's generation⁷ and 22 per cent in the United Kingdom.⁸
- Both countries also have access to other forms of zero emissions synchronous generation, including nuclear. This is in contrast to the intermittent renewable solar and wind generation that is being incorporated into the Australian electricity system.
- Hydro power makes up 60 percent of Canada's generation mix, with nuclear power accounting for another 17 percent.⁹
- Nuclear also accounts for 21 per cent of the United Kingdom's generation capacity.¹⁰
- The UK Government concern about about electricity shortages has resulted in it have agreeing to provide a large subsidy to build a new nuclear power plant and will pay gas fired generation billions of dollars just to be there.¹¹

8. Ratification of the Paris Agreement International Experience on Energy Transition Clean Energy Investment

8.1 The Government recently reaffirmed Australia's strong commitment to effective global action on climate change with the ratification of the Paris Agreement on climate change and the Doha Amendment to the Kyoto Protocol.

8.2 The Paris Agreement and the Doha Amendment, which together formalise Australia's 2030 and 2020 emissions reduction targets, were tabled in the first sitting week of the new Parliament. The Joint Standing Committee on Treaties considered National Interest Analyses (NIA), four public hearings and almost 50 submissions before recommending that Australia ratify both treaties.

8.3 Australia was one of more than 170 countries to sign the Agreement when opened for signature at the United Nations in New York in April 2016.

6 <http://www.theaustralian.com.au/business/mining-energy/canada-to-phase-out-coal-power-by-2030/news-story/f059b2f2bc3dac0b5fbd808991390133>

7 <https://www.neb-one.gc.ca/nrg/ntgrtd/ft/2016/fslctrct-eng.html>

8 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/513224/Press_Note_March_2016.pdf

9 <http://www.nrcan.gc.ca/energy/electricity-infrastructure/about-electricity/7359>

10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/513244/Press_Note_March_2016.pdf

11 <https://www.ft.com/content/b8e24306-48e5-11e6-8d68-72e9211e86ab>

8.4 Australia now joins 100 other countries in ratifying the Paris Agreement, which entered into force on 4 November 2016.

8.5 Australia has a strong track record on international emissions reduction targets. We beat our first Kyoto target by 128 million tonnes and are on track to meet and beat our second Kyoto 2020 target by 78 million tonnes.

8.6 Ratification of the Agreement confirms Australia's ambitious and responsible target to reduce emissions by 26 to 28 per cent below 2005 levels by 2030. This target is comparable with other advanced economies and will halve our per capita emissions making it one of the highest targets in the G20 on that basis.

9. Meeting our targets

9.1 The Government's current climate change policy framework is enabling Australia to reduce its emissions without the economic damage of a carbon tax. Australia is currently on track to comfortably beat its cumulative 2020 target by 78 million tonnes.

9.2 The current framework includes existing and developing policies such as the:

- the Emissions Reduction Fund (ERF);
- the Renewables Energy Target (RET);
- The National Energy Productivity Plan (NEPP);
- measures to support clean energy investment, including the \$10 billion Clean Energy Finance Corporation (CEFC) and ARENA;
- vehicle emissions standards; and
- a domestic phase down of hydrofluorocarbon gases as part of a recently developed global agreement.

10. Emissions Reduction Fund (ERF)

10.1 The Federal Government's \$2.55 billion ERF has been highly successful in reducing emissions and exceeded all expectations.

10.2 On November 24, 2016 the Clean Energy Regulator (CER) announced that the latest auction had achieved over 34 million tonnes of carbon abatement purchased for an average price of \$10.69 per tonne. Prices are consistent with the previous auction and remained significantly lower than the first two auctions. The CER awarded 47 contracts for 49 projects, committing a total of \$367 million. As a result, the cumulative average price across all auctions has again fallen and stands at \$11.83.

10.3 In the CER media release, Chloe Munro, Chair of the Clean Energy Regulator, said:

The market has demonstrated its continued capacity to bring forward low cost abatement under the Emissions Reduction Fund. The pace of new project registrations has steadied while new participants have added diversity in the type of abatement on offer.

Bids put forward at this auction represented all sectors of the economy and showed that the market understands what it takes to be competitive in the auction process.

After four auctions, we have added contracts in all sectors from land to mining. Some of the more innovative methods made in the last year have already featured in this auction,” “The market has demonstrated its continued capacity to bring forward low cost abatement under the Emissions Reduction Fund. The pace of new project registrations has steadied while new participants have added diversity in the type of abatement on offer.¹²

Emissions Reduction Fund Auctions Results

	Fourth auction	Cumulative total
Abatement purchased	34.4 million tonnes	177.6 million tonnes
Average price per tonne	\$10.69	\$11.83
Total committed	\$367 million	\$2.1 billion
Total contracts	47	356
Total projects	49	397

11. Conclusion

11.1 Inappropriate policy, regulation and interference in an attempt to pick winners or mandate inefficient investment means consumers, industry and communities will ultimately suffer through increased energy prices and loss of energy security. This was supported by evidence from a number of submitters to the inquiry.

11.2 The Australian Energy Market Commission (AEMC) submission said:

The decision of a generator to retire should be a commercial decision ... The added benefit of this approach is that the risks of poor investment decisions are borne by generators rather than taxpayers or electricity consumers (as would be the case if a government were to intervene).¹³

11.3 The Australian Energy Council (AEC) submission said:

Regulatory closure, or even the requirement to give an extended closure notice, may prejudice both financing arrangements and supply contracts of power plants. This may then precipitate a disorderly closure if loans are called in early or suppliers terminate contracts.¹⁴

12 Clean Energy Regulator, 'Competition keeps price low at fourth Emissions Reduction Fund auction', *Media release*, 24 November 2016, <http://www.cleanenergyregulator.gov.au/ERF/Pages/News%20and%20updates/News-Item.aspx?ListId=19b4efbb-6f5d-4637-94c4-121c1f96fcfe&ItemId=319>

13 *Submission 12*, p. 3.

14 *Submission 44*, p.7.

11.4 The Grattan Institute who noted that:

Any further government intervention to regulate or otherwise force the closure of coal-fired power stations in the interest of an "orderly" closure is likely to create more uncertainty and higher costs than would otherwise be achieved by a well-functioning market." "Any further intervention by federal, state or territory governments to regulate or otherwise force the new entry of specific low-emission technologies is likely to add cost without environmental benefit.¹⁵

11.5 For these reasons, the Government does not support the interim recommendations. Instead the Government supports policies that provide for flexible, well-functioning and competitive markets that deliver certainty for industry and are technology neutral. Government's role is encourage and reward innovation, not pick winners.

12. Comment on the Majority Recommendations

Recommendation 1

5.10 The committee recommends that the Australian Government adopt a comprehensive energy transition plan, including reform of the National Electricity Market rules.

Coalition Senators' Comment

12.1 The Federal Government, working with the COAG Energy Council, has a comprehensive set of existing and developing policies to deliver emission reduction targets whilst keeping energy security as the number one priority. Further, the Finkel Review will deliver a Blueprint for the energy sector to be considered by all State and Territory Governments in early 2017.

Recommendation 2

5.11 The committee recommends that the Australian Government, in consultation with industry, community, union and other stakeholders, develop a mechanism for the orderly retirement of coal fired power stations to be presented to the COAG Energy Council.

Coalition Senators' Comment

12.2 By April 2017, nine of 12 of Australia's most emissions intensive coal fired power stations will have retired without such a mechanism. The Australian Energy Market Commission, the Grattan Institute and the Australian Energy Council strongly recommend against such interference citing negative impact on market operations plus a likelihood of increased costs with no environmental benefit. The Coalition Senators agree with these reputable and knowledgeable organisations.

15 *Submission 57*, p. 1.

Recommendation 3

5.12 The committee recommends that the Australian Government, through representation on the COAG Energy Council, put in place a pollution reduction objective consistent with Australia's obligations under the Paris Agreement in the National Electricity Objectives.

Coalition Senators' Comment

12.3 The Federal Government has ratified the Paris Agreement and Australia has an ambitious and responsible target to reduce emissions by 26 to 28 per cent below 2005 levels by 2030. Australia is currently on track to beat its cumulative 2020 target by 78 million tonnes. A suite of policies are already in place to facilitate Australia delivering on its obligations.

Recommendation 4

5.13 The committee recommends that the Australian Government establish an energy transition authority with sufficient powers and resources to plan and coordinate the transition in the energy sector, including a Just Transition for workers and communities.

Coalition Senators' Comment

12.4 The Coalition Senators support a transition of the energy market which is supportive of displaced workers, their families and surrounding communities. The indirect impacts on associated small-medium businesses need to be considered in any Government response. Hence, the Federal Government's package to respond to the Hazelwood closure not only supported workers and their families but was also designed to support the broader community across the region. The Coalition Senators do not support this recommendation as the proposed transition authority would only add another layer of bureaucracy on top of the involvement of the following departments: Environment & Energy; Regional Development; Infrastructure & Transport; Industry, Innovation & Science; and Employment. The Federal Government is working closely and effectively with other levels of Government and the community in the Latrobe Valley.

Senator David Bushby
Deputy Chair

Senator Jonathon Duniam

