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Friday, 7 September 2018

Dr Wendy Craik  
Chair  
Climate Change Authority  
GPO Box 787  
Canberra ACT 2600

Dear Dr Craik,

## **RE: National Greenhouse and Energy Reporting Legislation**

ERM Power Limited (ERM Power) welcomes the opportunity to respond to the Climate Change Authority's National Greenhouse and Energy Reporting Legislation consultation paper.

### **About ERM Power**

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load<sup>1</sup>, with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. [www.ermpower.com.au](http://www.ermpower.com.au)

### **General Comments**

ERM Power welcomes the opportunity to provide comments on the safeguard mechanism at a time when emissions reduction policy, particularly as it relates to electricity generation, is in a state of flux. ERM Power provided submissions to previous consultations into the design of the safeguard mechanism as we held concerns that the mechanism could, if designed poorly, lead to a range of perverse outcomes. We maintain that these risks still exist and could be resolved simply, while maintaining the overall effectiveness of the policy.

Low emissions generators are still at risk of facing costly compliance requirements to comply with the safeguard mechanism should the sectoral cap be breached. ERM Power argues that while the safeguard mechanism needs few changes at this stage, the issues affecting low emissions generation must be fixed.

We also believe that no change is needed to the emission threshold of 100,000 tCO<sub>2</sub>-e at this time.

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<sup>1</sup> Based on ERM Power analysis of latest published financial information.



### **Safeguard mechanism – electricity generation**

The sectoral cap that covers the electricity sector means that electricity generators would only be subject to individual safeguard emissions limits if the sectoral baseline is breached. To date, the sectoral baseline has not been breached.

That does not mean that the baseline will never be breached. If demand increases, possibly through increased industrial activity such as the commissioning of the export LNG terminals and their associated upstream gas facilities, or via the electrification of transport, then supply to meet this demand will need to be sourced from somewhere. Renewable energy is playing an increasingly important role in new generation which is in part driven by the Renewable Energy Target (RET) and state-based renewable energy policies. The lack of a national energy and climate policy may stifle future investments in renewable technologies. As such, dispatchable generation such as gas-fired generation may be needed to fill this gap.

Increased generation from intermittent renewable power stations – wind and solar – is also expected to drive generation from fast-starting ‘peaking’ power stations which can ramp from zero to full output within minutes, to ensure the provision of reliable supply to end use customers. Gas-fired generation is well suited to this role. The existing safeguard mechanism acts as a large disincentive to low utilisation gas-fired generation to increase output at times of low intermittent renewable power stations, therefore compromising reliable supply to consumers.

If generators with an emissions intensity lower than the grid average – such as gas-fired generators – reduce their output, then that demand will likely be sourced from higher emissions intensity coal-fired generation, resulting in an increase in overall emissions. Penalising a gas-fired generator in those circumstances would be an undesirable outcome and lead to higher emissions overall.

It would be a perverse emissions reduction policy outcome to penalise generators with lower emissions intensity than the grid average, as it would indirectly reward higher emitting generators to increase their dispatch levels (subject to their own individual baseline). That is, by discouraging lower emission generators to dispatch, the removal of those less emissions intensive MWh would cause electricity prices to increase in the state, thus providing a financial incentive to baseload coal-fired generation to increase output. It is difficult to see how a policy designed to safeguard against the increase in emissions could be seen as successful in any way if it deliberately provides an incentive to higher-than-average emitters while discouraging lower-than-average emitters.

The alternative to this efficient fast-start production capability operating as the required standby plant is to idle high emissions baseload plant at low load to cater for the periods when the intermittent renewable power stations lower output. At these low loads, baseload plant has even higher emissions intensity, leading to overall emissions being significantly higher than that would otherwise be the case.

ERM Power recommends that the safeguard mechanism be amended to remove this anomaly and ensure that generation that is lower than grid average does not face a penalty for increasing output. This will help support lower emissions intensity generation, promote reliable supply and avoid inadvertently increasing prices to end use customers.

### **Safeguard mechanism – 100,000 tCO<sub>2</sub>-e threshold**

ERM Power believes that the current coverage threshold of 100,000 tCO<sub>2</sub>-e remains an appropriate level for coverage to ensure that a sufficient volume of Australia’s emissions is covered while minimizing the regulatory burden for smaller businesses. We do not believe that anything has changed in this regards since the safeguard mechanism came into operation. Reducing the threshold from the current level could add significant costs to smaller and growing businesses. As such, we support retaining the threshold at 100,000 tCO<sub>2</sub>-e of Scope 1 emissions.



Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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