

## National Energy Guarantee – what will it mean?

### In a Nutshell

On 17 October 2017 the Federal Government announced its energy policy which does not propose to adopt Dr Alan Finkel's [Clean Energy Target](#), instead proposing to adopt a National Energy Guarantee (NEG). The details currently available concerning the NEG are limited and accordingly the impact on Australia's energy sources, including the future of renewable energy, pursuant to the NEG is uncertain.

#### The NEG

The NEG was proposed to the Australian Government by the Energy Security Board (ESB) which was established based on Finkel's recommendation.

The NEG reportedly aims to provide a “**reliability guarantee**” ensuring a continuous supply of energy while also providing an “**emissions guarantee**” to ensure compliance with Australia's obligations under the Paris Agreement.

The Federal Government's announcement simply provided that it will accept the ESB's recommendation without offering any additional detail.

#### Reliability Guarantee

The NEG proposes to place an obligation on retailers to source a certain percentage of energy from eligible dispatchable resources.

The percentage will be determined on a region by region basis, however, few details have been released surrounding the calculation of that percentage and the eligible “dispatchable” resources.

Industry participants envisage that coal, gas, pumped hydro and battery storage technology are likely to be considered as eligible resources.

The [South Australian blackout](#) in September 2016 and the load shedding that occurred in South Australia and New South Wales in February 2017 played a significant role in triggering this emphasis on reliability.

#### Emissions Guarantee

Retailers would also have an obligation to meet their demand at a predetermined average emissions intensity level.

This emissions guarantee scheme, proposed to commence in 2020, would replace the Renewable Energy Target.

If implemented, retailers would be required to prove to the Australian Energy Regulator that the electricity distributed has met the emissions guarantee over the relevant period.

To ensure that retailers meet the target and do not face disciplinary action (such as de-listing) retailers will need to specify an emissions level in their contracts with generators when purchasing energy.

The new target, which will largely impact the future of renewable energy generation, is yet to be announced.

#### Implementation of the NEG

It is anticipated that the NEG will be applied by way of amendments to the National Electricity Rules (NER).

Once further developed, the NEG will need the support of the relevant States and Territories as legislation will need to be passed at the State level to implement the changes.

In this regard the support of the Council of Australian Governments (COAG) Energy Council is crucial. It is anticipated that the NEG will be considered in the next COAG meeting scheduled to take place at some stage this month.

## How would it work?

The issues around the operation of the NEG are currently limitless. For example, there is no indication of:

- J How retailers could meaningfully calculate and report on the emissions intensity of their electricity;
- J What account will be taken of the existing long-term contracts benefiting from existing policies such as the Renewable Energy Target;
- J The standard of reliability required to be met and which energy resources will qualify as reliable resources; or
- J The governance arrangements proposed to be implemented to administer compliance with the NEG.

The viability of the NEG as a solution to the national energy crisis cannot meaningfully be projected without the above and other key details.

## Flow on effects for the renewable energy sector

The future of renewable energy following the implementation of the NEG is difficult to predict based on the limited information currently available. However, the ESB has suggested that the NEG would lead to 28-36% of renewable energy in the generation mix of the National Electricity Market by 2030.

Industry participants have estimated that this would result in only between 250MW and 670MW of large-scale renewable projects being deployed each year from 2020 up until 2030.

It follows that a considerable decrease in investment in new renewable generation can be expected if the NEG were implemented given that the Australian Energy Market Operator has reported that it has already registered over 20,000 MW of proposed new renewable energy projects.

However, on the other hand the introduction of an emissions reduction objective for the National Energy Market would be positive for clean energy sources, including renewables. In this regard the chosen emissions level would largely impact the future of renewable energy pursuant to the NEG.

## Next Steps

It seems that the Federal Government will have its work cut out for it in trying to obtain support from the States, with the Energy Ministers of Queensland and Victoria and the Premier of South Australia (Jay Weatherill) all voicing

disapproval of the NEG (or as Weatherill dubbed it “the coal energy target”).

## Contact details

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