

Open letter to COAG Energy Council ministers

Dear ministers

26% for the electricity sector does not make economic sense.

The Turnbull Government's National Energy Guarantee (NEG) is intended to end more than a decade of climate change-related policy uncertainty in the electricity sector and, in doing so, help drive investment in the sector and lower electricity prices for households and businesses. The success of the NEG will depend on the credibility of its 'emissions guarantee', which will determine the emissions reductions required from the electricity sector.

The Turnbull Government currently plans to limit emissions reductions from the electricity sector to 26% below 2005 levels by 2030. This compares to Australia's economy-wide target of 26-28% below 2005 levels by 2030 under the Paris Climate Change Agreement.

The proposed 26% target for the electricity sector is neither credible nor economically efficient.

All existing economic research suggests the cost of reducing greenhouse gas emissions are lower in the electricity sector in Australia than they are in most other sectors. Mature technology, falling costs of renewable generation and storage technologies, the opportunities for demand-side management and energy efficiency mean reductions can be made relatively cheaply in the electricity sector. In other sectors, the technologies are not as mature and the opportunities for cheap abatement are more limited.

Due to this, the evidence suggests meeting Australia's emissions reduction targets at least cost requires the electricity sector to reduce its emissions by more than the economy-wide average.

Limiting emission reductions in the electricity sector will mean other sectors of the economy - where abatement is more expensive and difficult to access - will face a heavier burden. This will impose unnecessary costs on those sectors and the economy more broadly. The failure to set a credible target for the electricity sector also increases the likelihood of a subsequent policy change, thereby perpetuating the policy uncertainty the NEG is intended to resolve.

In order to restore investor confidence in the electricity sector, and meet Australia's Paris commitments in a cost-effective manner, the emission reduction target for the electricity sector must be well-above the 26% proposed by the Turnbull Government.

We urge you to ensure the NEG's emissions guarantee is consistent with Australia's long-term interests.

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