AUSTRALIAN INSTITUTE OF PETROLEUM

5 August 2016

Energy Policy and Programs
Department of Economic Development, Jobs, Transport and Resources
GPO Box 4509
Melbourne VIC 3001

Via email: energysaver.incentive@ecodev.vic.gov.au

Re: VEET - options for including large energy users currently excluded from the scheme

Thank you for the opportunity to provide input to the Victorian Energy Efficiency Target (VEET) consultation on options for including large energy users currently excluded from the scheme.

The Australian Institute of Petroleum (AIP) does not support the proposal to expand the VEET to include large energy users as it will impose additional costs on energy on the Australian oil refining industry, but will not generate additional improvement beyond the refineries' existing energy efficiency programs.

AIP is pleased to present this submission on behalf of its core member companies:

- BP Australia Pty Ltd
- Caltex Australia Limited
- Mobil Oil (Australia) Pty Ltd
- Viva Energy Australia Pty Ltd.

AIP member companies operate across the liquid fuels supply chain including crude and product imports, refinery operations, fuel storage, terminal and distribution networks, marketing and retail. Underpinning this supply chain is considerable industry investment in refining and supply infrastructure, and a requirement for significant ongoing investment in maintaining existing capacity. The key industry assets pertinent to the proposal to include large energy users under the VEET scheme are the Mobil refinery at Altona and the Viva Energy Refinery in Geelong.

Over the last decade, AIP member companies have invested over $10 billion to maintain the reliability and efficiency of fuel supply meeting Australian quality standards. Following the closure of four refineries in Australia over the past eight years, the Australian refinery industry is investing significant capital to ensure the ongoing competitiveness and reliability of the remaining four refineries in Australia.

Australian refineries are an important economic activity in their own right and underpin the competitive advantage of a number of major exporting industries, such as the chemicals and plastics sector. Studies have indicated that the average refinery contributes around $1 billion of GDP depending on its size and employs around 1,500 highly skilled personnel which can significantly expand during regular major maintenance periods ("turnarounds").

Australian refining is a key source of liquid fuel supply for the Australian economy, supports some localised crude and condensate production and adds diversity to the supply mix. Any further reduction of refining capacity, particularly if it were the result of government policy, would need to be carefully considered for the potential impacts on Australian liquid fuel supply security.

Compared to refineries across Asia, Australian refineries suffer from substantial disadvantages in operating and capital costs that virtually preclude Australian refineries from consideration for major new expansion projects. The relatively small Australian refineries offer no economies of scale benefits compared to their competitors in Asia. Australian labour and construction costs for new and expanded refinery investments remain high compared to costs in most countries in Asia.

Refineries seek to manage the challenges they face by improving the efficiency of their operations through enhanced refinery yields, reliability and cost containment. Continued availability of highly trained technical staff and contractors will also contribute to high levels of refinery efficiency. As large energy users, our refineries have a strong commercial interest in ensuring efficient and improving use of energy.

While the cost of crude oil is the major input cost for refineries, other key expenses for refineries include:

- utilities and energy charges
- crude oil shipment and storage
- additives, catalysts and chemicals
- capital costs, financing and depreciation
- wages and salaries
- plant maintenance
- site security and systems
- product shipment and storage
- government taxes and charges
- regulatory measures.

Increasing costs in any of these areas can have a significant impact on the ongoing viability of the refinery. Similarly, competitive distortions may arise when carbon costs are imposed on Australian industry in advance of those costs being on competitors in other countries. This can in turn lead to carbon leakage to less efficient producers.

As large energy users, gas and electricity are already significant input costs for AIP members' facilities, resulting in a strong commercial incentive to identify and implement energy efficiency opportunities. Some AIP members also have strong networks with worldwide technology support centres and staff with the necessary expertise and resources to identify and drive energy efficiency opportunities.

Given this fact, AIP and member companies have been actively engaged with both Federal and State Governments on initiatives and policy discussions related to energy and climate change for many years. Throughout this period, the industry has naturally sought to reduce its energy consumption as part of business efficiency and cost containment programs to underpin the viability and competitiveness of their operations. Companies are constantly examining all commercial options to pursue energy efficiency opportunities, in particular refineries, where viable with a view to ensuring their operations remain globally competitive into the future, regardless of Government intervention. The viability of these options will largely be determined by a range of commercial factors including through an assessment of the long term delivered cost of energy, the technical constraints of refineries, the relevant payback period and the ability to access the required capital.

AIP, and member companies, support greenhouse and energy abatement policies determined at the national level. An approach led by the Federal Government is more likely to avoid duplication or inconsistencies and can provide a more level playing field given our industry operates across borders.

AIP seeks policy settings which ensure that the local refining industry is not competitively disadvantaged, minimises cost imposts versus our regional competitors, and facilitates ongoing required investment through policy certainty and a stable investment environment. Any policy should be appropriately targeted to address those situations where there is clear and demonstrable market failure. These policies should also clearly provide for additional energy savings that would not otherwise have occurred without the policy.

AIP emphasizes the importance of Government providing long lead times when implementing new or expanding policy. This is especially true where the policy change necessitates significant capital investment (such as for energy efficiency measures) as modifications to refineries require extensive planning work, sourcing of capex and corporate approval. Similarly, the required upgrades to equipment are best undertaken during major maintenance events, typically occurring every three to six years, as there may be broader implications for the overall efficient operation of the refinery and reliable supply.

While AIP recognises that the VEET could play a key role in driving energy efficiency across the energy network, the opportunities for large energy users are likely to be significantly less for the reasons outlined above when compared with small and medium sized enterprises. Importantly, large users will have already undertaken those energy efficiency opportunities that are commercial beyond what may be achieved through inclusion in the VEET scheme. The costs associated with any additional energy efficiency activities are likely to remain prohibitive, regardless of inclusion in the VEET scheme. VEET pass-through costs would therefore represent an increased cost to the industry, would unlikely stimulate further investment in energy efficiency and further undermine business and stakeholder confidence by reducing the cash available for sustainable investment.

For all of these reasons, AIP therefore opposes the mandatory inclusion of large energy users into the VEET scheme under either of the proposed options (i.e. the intermediate option or the gradual option). Inclusion in the scheme under either option, without our industry’s capacity to benefit from commensurate energy efficiency opportunities, will simply represent an additional cost burden on those large energy users.

AIP and member companies do, however, note the view that some large users have expressed a desire to be included in the scheme and as such AIP would support a voluntary opt-in option for those large energy users who wish to participate.

Although AIP is opposed to including large energy users into the VEET scheme, AIP has had the opportunity to review and consider a number of submissions provided to the review. In assessing the appropriate treatment of large energy users under a revised VEET scheme, AIP considers that an alternative option put forward by the AIGroup in its VEET submission of 18 May to exclude large energy users may have merit in meeting the needs of both Government and industry.

If the Government chose to revise the current policy settings for the VEET, AIP recommends the following approach:

1. The VEET should exempt large energy users who can demonstrate that their facilities meet any of the following criteria:
    a. had total energy consumption in the latest year for which National Greenhouse and Energy Reporting (NGER) data is available equal to or higher than 100 terajoules; or
    b. had been deemed as Emission Intensive Trade Exposed (EITE) status in previous Commonwealth climate and energy discussions; or
    c. was the beneficiary of an allocation of Partial Exemption Certificates (PECs) under the Commonwealth's Renewable Energy Target in the latest year before the application.

    The data required to underpin and facilitate the exemption application could be facilitated through an MOU with the Clean Energy Regulator (CER) who already receive data from facilities over 100TJ of energy. The CER also administers the RET and EITE exemption system.

2. The Victorian Government should maintain a publicly accessible online register of exempted facilities.

3. The exemption should cover all VEET pass through costs relevant to the entire facility.

4. Exemption should apply over the whole target period, whether that is three years or five years, from the time that the application is accepted.

5. Where large energy users believe they have substantial energy efficiency opportunities that are suitable for progressing through VEET, it would be open to them not to apply for an exemption for the target period and "opt-in" to the scheme.

We believe this approach is workable and would meet the needs of Government for both transparency and capacity for voluntary large energy user involvement in the scheme, as well as the industry requirement for minimising unnecessary additional costs. It would provide the necessary clear and early guidance to energy retailers about exempt loads, and also to energy service companies (ESCOs) and VEET market participants about excluded facilities. This approach would also ensure a low administrative burden and costs for energy users, retailers and government.

Please do not hesitate to contact me should you wish to discuss anything further. I can be reached on 02 6247 3044 or via email at aip@aip.com.au

Yours sincerely

Peter Gniel
General Manager Policy