**MEDIA RELEASE 15 September 2004**

## Energy Retailers Call for a Single Standard Greenhouse Gas Abatement Scheme

The Energy Retailers Association of Australia has called for a single standard greenhouse gas abatement policy in Australia during the release of a major paper in Sydney today. (see attached)

The Executive Director of the ERAA, Deane Russell, said the existing policy status was characterised by a fragmented array of short term State and Federal Government greenhouse gas abatement measures.

“These measures tend to be poorly targeted, overly complex and as such, highly inefficient mechanisms for reducing emissions, Mr Russell said.

“Energy retailers around Australia bear the cost and risk of administering the different State and Federal Government greenhouse gas abatement measures for the electricity sector.

“This is not changing behaviour in the generation and transmission of electricity and more importantly, not changing the behaviour in consumers,” Mr Russell said.

“Because the costs of the various schemes are hidden through complex administration burden, no other parts of the industry or indeed consumers, see any signals about reducing carbon.

“The Sequestration Leadership Forum in Melbourne this week is a step in right direction for the long term solution for carbon emissions, but at the moment, Australia has seven possible policy alternatives which are confronting energy retailers.

“In releasing the policy paper on climate change, the ERAA wants to ensure that there is a consistent approach applied by all State and Federal Governments to this important issue,” Mr Russell said.

“The retailers acknowledge that they have a role to play in the solution, but at the moment they are bearing the cost of inefficient and ineffective policy.”

The major thrust of the policy paper was that effectiveness and efficiency requires that climate change policy, and any associated abatement scheme, must:

- cover emissions emanating from all sectors and industries in the economy, including the energy sector;
- apply to the full spectrum of abatement alternatives, without bias, including cleaner fossil-fuel generation technologies such gas and clean coal, energy efficiency and demand side management, renewable energy and carbon sequestration options such as ceasing land clearing and geo-sequestration;
- ensure carbon liability is assigned so emissions are reduced cost effectively;
- avoid exemptions where possible and treat transparently where deemed necessary (for example, to minimise the impact on international competitiveness);
- harness market forces to determine a dynamically efficient carbon price signal (necessary to rank abatement options in order of least cost over time); and
- be dedicated to achieving a single policy objective (emissions reduction target) and not be compromised by other policy objectives such as industry development (which, if justified, should be addressed separately).

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# Energy Retailers Association of Australia

# Climate Change

**Policy Position Paper**

**Version 1.2, Issued September 2004**

# ERAA Policy Position – Climate Change Policy

It is the ERAA's strong contention that the long term interests of the community are best served by a comprehensive climate change policy. Such a policy would establish a national framework for creating a clear, long term carbon signal across the economy.

By making the environmental cost of energy transparent, a carbon signal provides an incentive for consumers to conserve energy and for producers to invest in cleaner energy technologies. This incentive is essential to achieving an appropriate balance between the economic benefits of energy and its environmental costs.

The existing policy environment is characterised by a fragmented array of short term State and Federal Government greenhouse gas abatement measures. These measures tend to be poorly targeted, overly complex and as such, highly inefficient as mechanisms for reducing emissions.

Ultimately, all segments of the community will bear the longer term consequences of an inappropriate policy response today.

To be comprehensive, climate change policy must adhere to the following principles:

- **Effectiveness and efficiency**
  - actual reductions in emissions occur at the lowest cost with markets, and not government, determining the mix of technologies used;
- **Equity and transparency**
  - the burden of reducing emissions is allocated across the community in a fair and open manner;
- **Administrative simplicity**
  - the scheme employed to reduce emissions minimises the complexity and cost for participants;
- **Regulatory certainty**
  - the policy framework is robust and stable, establishing a long term price signal for carbon which can be passed through regulated sectors; and
- **International compatibility**
  - the scheme implemented in Australia is capable of being linked to a global framework or predominant international schemes.

# ERAA Policy Position Paper – Climate Change Policy

*Part A of this paper provides a background to climate change policy, Part B presents the rationale for the policy principles adopted by the ERAA, and Part C outlines a role for retailers in climate change policy.*

## Part A. Background and context

It is now widely acknowledged that global warming (climate change) is caused by an increase in greenhouse gases in the Earth's atmosphere. The main greenhouse gases are water vapour, carbon dioxide, methane and nitrous oxide, as well as some manufactured gases such as chlorofluorocarbons and some of their replacements. Reducing the amount of greenhouse gases produced by human activity – particularly by burning of fossil fuels and land clearing – is increasingly being recognised as an important issue by governments, industry and communities world wide. If people around the world do not act to control global warming, scientists have predicted:

- a rise in the Earth's temperature between 1.4°C to 5.8 °C by 2100;
- higher sea levels as oceans expand and glaciers melt - from 9 and 88 centimetres by 2100; and
- complicated changes in weather patterns, such as more severe droughts and floods, and higher rainfall intensity.

While potential impacts of global warming are not yet clear, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) has reported Australia may experience significant loss of productivity from changed weather patterns. For example the impact of severe droughts on production, health impacts due to a rise in tropical diseases, and declining of fauna and flora due to loss of habitat.

The energy industry is a major contributor to greenhouse gases through the combustion of fossil fuels which emits carbon dioxide (emissions). In 2001, Australia's emissions were up 7.3 million tonnes compared with the 2000 national inventory of 542.6 million tonnes of CO2e (carbon). Of these emissions, the energy sector contributed 68 per cent with almost half (45 per cent) as a result of coal fired electricity generation.

Australia is rich in fossil fuels and therefore among countries with the lowest per unit energy costs and highest per capita energy consumption levels in the world. Projections by the Australian Greenhouse Office (AGO) suggest Australia will experience significant increases in emissions from the energy sector, particularly electricity generation, over the next 20 years. The Australian Bureau of Agricultural and Resource Economics (ABARE) projects a 50 per cent increase in energy

consumption in Australia from 2000/01 to 2019/20, driven largely by electricity demand.

## A.1 The challenge for government

Whilst all segments in the community clearly have a part to play in addressing climate change, it is ultimately the responsibility of government to lead the way. The key challenge for government is to create a policy environment that balances, appropriately, the economic benefit of fossil fuel based energy in the short term and its environmental cost in the long term. An appropriate balance is that which best serves the long term interests of the community and, ultimately, all segments of the community will bear the consequences of an inappropriate balance.

The ERAA appreciates that determination and achievement of an appropriate balance is a difficult task, politically and economically, for at least three reasons:

- the inherent uncertainty of climate change parameters;
- the increase in the cost of energy that will occur as the cost of carbon is internalised; and
- the lack of a legally binding international climate change framework.

## A.2 The challenge for industry

Just as it is the responsibility of government to lead the way, it is the responsibility of industry to make investment decisions. The key challenge for industry is to make efficient investment choices across a range of alternative energy generation and delivery technologies, including research and development (R&D) in emerging energy technologies. Again, efficient investment choices will be those that best serve the long term interests of the community and, ultimately, all segments of the community will bear the consequences of inappropriate choices.

Industry's ability to make efficient investment decisions is directly affected by at least three factors:

- the inherent uncertainty of climate change parameters;
- the long term stability of government climate change policy; and
- the existence of an effective mechanism for valuing carbon and creating an investment signal.

### A.3 Government policy response to date

The Commonwealth Government's policy position on Climate Change is described in 'Australia's Third National Communication on Climate Change 2002':

- Australia will not ratify the Kyoto Protocol unless ratification is shown to be in the national interest; and
- Australia will continue to strive to meet its target under the Kyoto Protocol in the first commitment period — an 8 per cent increase in 2010 on 1990 emissions.

In August 2002, the Commonwealth Government announced that Australia is projected to reach around 111 per cent of 1990 emissions by 2010. The projection is based on existing (and planned) State and Commonwealth greenhouse gas abatement schemes (abatement schemes). The more recently announced moratorium on land clearing in Queensland is expected to bridge the gap and make this target attainable without introducing new measures.

The Commonwealth Government recently rejected the introduction of a more comprehensive, long term approach to climate change policy in Australia (specifically a national emissions trading scheme). The Government's strategy for deeper emission reductions beyond the first commitment period appears to be based on funding R&D in particular technologies, such as geo-sequestration and clean coal, which it considers potential, longer term, solutions to the problem.

## Part B. Position and principles

It is the ERAA's strong contention that the long term interests of the Australian community are not best served by the policy response to date. A comprehensive long term policy framework would serve the community best. Several other groups in the community hold a similar view, including some State Governments which have commenced individual (and joint) processes to develop jurisdiction-based policy responses in the absence of more comprehensive policy action by the Commonwealth. The Parer Review (2003) found existing and planned abatement schemes to be highly inefficient as mechanisms for reducing emissions and recommended their immediate abolition and replacement by a national emissions trading scheme.

The Commonwealth's existing policy response is said to be in the national interest because it does not impose upon Australian industry the cost of additional emissions reductions ahead of Australia's trading partners and given the inherent uncertainty surrounding climate change. In the ERAA's view competitiveness and uncertainty considerations are

valid and appropriate, but the policy response that follows is flawed for the following reasons:

- the introduction of a comprehensive climate change policy need not impose significant costs on industry ahead of its major trading partners (at least not initially) to be of value to the economy;
- current arrangements, while arguably capable of meeting Australia's first commitment period emissions reduction target, are not least cost and were not designed to achieve deeper reductions likely beyond 2010;
- 'status quo' policy responses add significantly to the inherent uncertainty of climate change and therefore to the risk premium required for long term investment in major energy assets; and
- several of Australia's trading partners, some of which have and some of which have not ratified Kyoto, are already introducing national emissions abatement schemes, including those in the European Union and North America.

Existing Commonwealth policy provides no comprehensive mechanism for valuing carbon now and no indication of the mechanism that might be in place beyond 2010. Moreover, the only long term initiative appears to involve the government 'picking winners' regarding funding of particular emerging energy technologies as opposed to enabling the market, via a carbon signal, to determine the allocation of R&D funds dynamically. Under such policy conditions industry's ability to make efficient investment choices is severely hindered, which will ultimately manifest in higher energy costs than are necessary.

In the ERAA's view, there are five core principles, discussed below, that comprehensive climate change policy must adhere to as soon as possible, in order that it best serve the long term interests of the community.

## B.1 Effectiveness and efficiency

Effectiveness and efficiency requires that actual reductions in emissions occur at least cost drawing from different sources of abatement in least cost order. For this to occur, climate change policy, and any associated abatement scheme, must:

- cover emissions emanating from all sectors and industries in the economy, including the energy sector;
- apply to the full spectrum of abatement alternatives, without bias, including cleaner fossil-fuel generation technologies, such as gas and clean coal, energy efficiency and demand side management,

renewable energy and carbon sequestration options such as ceasing land clearing and geo-sequestration;

- assign liability for carbon on parties in the best position to avoid or reduce emissions cost effectively;
- avoid exemptions where possible and treat transparently where deemed necessary (for example, to minimise the impact on international competitiveness);
- harness market forces to determine a dynamically efficient carbon price signal (necessary to rank abatement options in order of least cost over time); and
- be dedicated to achieving a single policy objective (emissions reduction target) and not be compromised by other policy objectives such as industry development (which, if justified, should be addressed separately).

## B.2 Equity and transparency

Equity and transparency requires that the burden of reducing emissions is allocated across the community in a fair and open manner. That is, all segments of the community bear their fair share of the cost of protecting the environment and are aware of their contribution to the problem. For this to occur, climate change policy, and any associated abatement scheme, must:

- consider the winners and losers of any new scheme given investments made to-date;
- involve making consumers aware of the impact of their consumption choices on the environment; and
- enable explicit regulatory pass through of the costs it imposes on industry (particularly in sectors where price regulation exists, such as energy retailing).

## B.3 Administrative simplicity

Administrative simplicity requires that the complexity and cost of regulatory arrangements supporting climate change policy, be minimised. This includes the administration costs of measurement, monitoring, verification and compliance associated with any abatement scheme. For this to occur, climate change policy must consider:

- the practicality of the mechanism used to value carbon (for example, is a baseline and credit mechanism likely to be as effective as a cap and trade mechanism, when used in conjunction with Australia's National Electricity Market design);

- the impact of the number and nature of liable parties on administrative feasibility when assigning liability for carbon at any given point in the industry value chain; and
- utilisation of existing administration infrastructure (already established for the purpose of administering other broad-based Government policies, such as taxation).

## B.4 Regulatory certainty

Regulatory certainty requires that governments take a national, long term approach to climate change policy. This includes the establishment of a regulatory framework that:

- clearly defines the mechanisms and rules to be used to determine the value of carbon in the economy (even if implementation is to occur beyond 2010);
- minimises sovereign risk by preventing unilateral action by jurisdictional governments (particularly that which runs counter to the national approach);
- is sufficiently flexible and dynamic to deliver current emission reduction targets and higher targets (likely in the future);
- is integrated with broader, but related economic policies such as energy policy and transport policy; and
- enables explicit regulatory pass through of the costs it imposes on industry (particularly in sectors where price regulation exists, such as energy retailing).

## B.5 International compatibility

International compatibility requires that any abatement scheme associated with climate change policy in Australia must be capable of being linked to established schemes overseas. The ability to trade carbon abatement instruments internationally is essential to minimise the cost to the Australian economy, particularly as emissions reduction targets require deeper and deeper cuts. Linking can benefit the economy as an importer of low cost abatement from overseas and as an exporter of low cost abatement technology overseas. Even though immediate international participation may not be appropriate, any scheme designed for Australia must be considered in light of its compatibility with the EU Scheme, the most comprehensive abatement scheme currently in place.

## Part C. Role for retailers

Under a comprehensive climate change policy there is a role for retailers to educate and advise customers on how to use energy more efficiently, economically and environmentally.

Retailers are information-rich in relation to their energy customers, and as such, are in a strong position to identify and progress specific commercial opportunities for improvements in energy efficiency (demand-side management). This is a natural role for retailers because retailers and customers have the information and the incentive to behave rationally and therefore to continually seek out commercial opportunities (as part of the market process). The significant number of retailers competing in the energy market supports effective competition in the provision of energy efficiency services and therefore a high standard of service quality and innovation for customers.

Contrary to some views, retailers are not well placed to determine the particular source of energy supplied to customers. The design of the NEM means that the most economic source of generation at a particular time (as opposed to the most environmentally efficient) will be dispatched. Retailers effectively source energy from a pool of energy generators with varying emission intensities. Assigning liability for emissions abatement on the retailer is a circuitous and inefficient way of driving investment in cleaner generation technologies. The carbon signal created is blunt and therefore likely to be less than fully effective in delivering the desired investment.

# ERAA Policy Position Paper – Climate Change Policy

## Summary of Schemes in Australia

## Mandatory Renewable Energy Target (MRET) Scheme

Electricity Retailers and large wholesale electricity buyers across Australia are required to source an additional collective 9500 GWh of electricity by 2010 from renewable sources and acquit to the Commonwealth Government Regulator, Renewable Energy Certificates (REC's) in proportion to their total electricity purchases.

Achievement of the 9500 GWh target and interim targets prior to 2010 is underpinned by a $40/MWh shortfall charge which is payable if insufficient RECs are surrendered.

The core policy objectives of MRET are;

- to accelerate the uptake of renewable energy in grid-based applications, so as to reduce greenhouse gas emissions; (It is estimated to contribute 6.5 million tonnes of $CO_2$ per annum.)
- part of the broader strategic package to stimulate renewables, provide an ongoing base for the development of commercially competitive renewable energy; and
- to contribute to the development of internationally competitive industries which could participate effectively in the burgeoning Asian energy market.

It was estimated that the measure will lead to average price increases for electricity by 2010 of around 4%[1] -10%[2] or $1.30/MWh to 2.38/MWh.

The *Renewable Energy (Electricity) Act 2000* commenced on 1 April 2001.

The Office of the Renewable Energy Regulator (ORER) has been established as the regulator to oversee the implementation of the measure.

The Renewable Energy (Electricity) Act required a review of the operation of MRET after two years. The MRET Review report *Renewable Opportunities* (the Tambling Report) was delivered to Minister Kemp on 30 September 2003 and tabled in Parliament on 16 January 2004.

The Tambling Report made 30 Recommendations. The significant recommendations are:

[1] MMA Report to Origin Energy P11
[2] ACIL Tasman Report *Review of MRET report To Origin Energy* P51

- MRET Scheme to continue.
- Target to remain 9,500GWh in 2010 and increase to 20,000GWh in 2020.
- Shortfall charge to remain at $40/certificate until 2010 and then escalate at the CPI to 2020.
- MRET Scheme to extend to beyond 2020.

As at May 2004 the Commonwealth Government is to consider the recommendations in the report in the context of energy and climate change policy and make an announcement in 2004 regarding possible implementation. The Government's decision is expected mid 2004.

## Greenhouse Gas Abatement Program (GGAP)

The Greenhouse Gas Abatement Program (GGAP) is a Commonwealth Government initiative to assist Australia in meeting its Kyoto Protocol target.

The objective of GGAP is to reduce Australia's net greenhouse gas emissions by supporting activities that are likely to result in substantial emission reductions or substantial sink enhancement, particularly in the first commitment period under the Kyoto Protocol. $400 million has been allocated to the program.

The GGAP targets opportunities for large-scale, cost-effective and sustained abatement across the economy.

GGAP employs a competitive selection process, with two cost-effectiveness indicators informing project selection:

- GGAP funds (dollars) per metric tonne of reasonably assured and additional $CO_2$-e estimated to be abated in 2008-2012; and
- New national cost (dollars) per metric tonne of reasonably assured and additional $CO_2$-e estimated to be abated in 2008-2012

Projects funded under GGAP are expected to provide complementary benefits, for example opportunities for rural and regional Australia, ecological sustainable development, employment growth, the use of new technologies and innovative processes and non-government investment.

Projects that have been approved under the program, include:

- Installation and operation of equipment to burn methane contained in waste coal mine gas to produce electricity.
- Co-generation projects

- Re-configuration of Alumina Refinery processes

## National Greenhouse Challenge Program

The Greenhouse Challenge Program was launched in 1995 and is a joint voluntary initiative between the national Government and industry to abate greenhouse gas emissions. Industry participation is not limited to any particular sector but is spread across a range of industries and includes both public and private sectors.

Participating organisations sign a voluntary, cooperative agreement with the Government that provides a framework for the organisation to undertake and report on actions to mitigate/abate/reduce their emissions. Specifically, the program enables participants to

- identify where their emissions are coming from and
- develop and implement practical, effective measures that will reduce them or the growth in them.

These measures are articulated as actions in their respective cooperative agreements, the progress of which are tracked in annual progress reports.

The program works on a "no regrets" basis. From the company's perspective, the majority of actions will be cost effective within the time frame allocated because the actions identified are entirely within the discretion of the participating company.

The program covers actions applicable to all of the following six gas types that need to be reported and tracked under the Kyoto Protocol (ie. have been identified as having global warming potential attached to them):

- CO2 carbon dioxide
- CH4 methane
- N2O nitrous oxide
- HCFs hydroflurocarbons
- SF6 hexaflouride
- PFCs perflourocarbons

The program is recognised as being one of the best voluntary schemes worldwide, because of the combination of the following requirements:

- Annual progress reporting by each participant, to the Australian Greenhouse Office.

- Independent verification, carried out on a random basis. This maintains the rigour of the program by reviewing the methodologies employed and checking the robustness of the numbers reported by a company
- Public statement that enables the public to have some scrutiny over the reports. It is essentially a summary of the numbers contained in the annual report and gets published on the Greenhouse Challenge WebPages

The above factors add value to the program for an individual company and can be used to strengthen claims of environmental performance. In addition it can be used as a promotional tool for the company via the use of the Challenge logo (although a separate agreement must be signed

## National Green Power Accreditation Program

Green Power is electricity generated from renewable energy sources purchased by electricity suppliers on behalf of their customers and independently audited and verified by the National Green Power Accreditation Steering Group. The Green Power scheme is a voluntary national accreditation program that sets environmental and reporting standards for renewable energy generation offered by electricity suppliers to customers across Australia. It is offered nationally through joint collaboration by participating State Government agencies across Australia. These are known collectively as the National Green Power Accreditation Steering Group (NGPASG) with the NSW Sustainable Energy Development Authority appointed as overall Project Manager.

The scheme has a number of aims, including facilitating the installation of new renewable energy generators across Australia - beyond mandatory renewable requirements, reducing greenhouse gas emissions associated with electricity generation and increasing consumer awareness of renewable energy generation and greenhouse issues. However it is possibly more accurately characterised as a product marketing tool that enables retailers to effectively and credibly package and market electricity derived from 100% renewable sources. Where a customer switches to a Green Power option, the retailer is then obliged to ensure that the equivalent amount of electricity nominated is produced from renewable sources, avoiding the use of electricity generated from non-renewable sources.

The scheme has been designed to complement the federal Mandatory Renewable Energy Target (MRET) scheme, and to encourage additional investment over and above these legislative requirements. This is achieved through rules to the effect that purchases made to meet Green Power requirements may not be used to meet MRET obligations.

Individual participating companies are obliged to enter into an agreement with the Project Manager. Obligations under the scheme are outlined in this agreement and the National

Green Power Accreditation Program. Ongoing compliance of these products and of a company's administration is checked regularly via technical status reports provided by the electricity supplier that are independently audited and verified on an annual basis.

## Kyoto Protocol

On 9 May 1992, the world's governments adopted the UN Framework Convention on Climate Change (UNFCCC). In doing so, they took the first step in addressing one of the most urgent environmental problems we are faced with.

Five years later, on 11 December 1997, governments took a further step forward and adopted the Kyoto Protocol.

The Kyoto Protocol builds on the UNFCCC, and establishes new ground with legally binding constraints on greenhouse gas emissions and its innovative mechanisms aimed at reducing the costs of curbing emissions.

The Kyoto Protocol is an international treaty designed to limit global greenhouse gas emissions.

Many countries, including Australia, are Parties to the Convention and have signed the Protocol since negotiations were concluded at the third session of the Conference of the Parties (COP 3), December 1997.

The rules for implementing the Kyoto Protocol have been progressively developed since 1997, with negotiations concluding at COP 7, in November 2001.

The rules for entry into force of the Kyoto Protocol require 55 Parties to the Convention to ratify (or approve, accept, or accede to) the Protocol, including Parties listed in Annex I to the Convention accounting for 55% of that group's carbon dioxide emissions in 1990.

The Prime Minister has announced that Australia will not ratify the Protocol at this time because it is considered to not be in the best interests of the Australian economy, unless the USA also ratifies, and because it does not adequately provide for commitments by developing countries.

As at 15 April 2004, 84 Parties have signed and 122 Parties have ratified or acceded to the Kyoto Protocol.

Annex B of the Kyoto Protocol lists emissions target commitments for the developed countries. Commitments are expressed as a percentage of base year emissions (in most

cases the base year is 1990), and comprise a target for average annual emissions during the commitment period.

At COP 3. Australia accepted a target to limit growth in greenhouse gas emissions to 8 per cent above 1990 levels by 2008-2012. Emissions are effectively averaged over five years.

To demonstrate compliance with their targets, Parties would be required to acquit tradeable emissions units against their actual emissions for the commitment period.

Countries not included in Annex B (ie the developing countries) do not have emissions targets, but may participate in emissions abatement activities through the clean development mechanism.

In addition to policies and measures to reduce greenhouse gas emissions, Parties can use the Kyoto mechanisms and greenhouse sinks to meet their commitments in a cost-effective way. The Kyoto mechanisms include international emissions trading, the clean development mechanism and joint implementation schemes between developed and developing countries.

The sources that need to be counted in the 1990 baseline are all emissions from the energy, industrial processes, solvent and other product use, agriculture and waste sectors. For some countries, notably Australia, land use change activities (emissions from land clearing) are also included.

As approximately one third of Australia's greenhouse-gas emissions arise from the land based sectors, the Australian Greenhouse Office has developed a National Carbon Accounting System (NCAS) to merge the role of sinks in Australia's emissions reduction efforts. The system will assist in developing an optimum greenhouse policy response and in fulfilling the accounting and reporting requirements of the Kyoto Protocol.

A greenhouse sink is any process or mechanism that removes a greenhouse gas from the atmosphere. A greenhouse sink can store atmospheric carbon in a carbon pool. Examples of carbon pools are forest biomass, wood products and soils.

Article 3 of the Kyoto Protocol, provides that countries must account for both sequestration (storage) and emissions of greenhouse gases from eligible land use change and forestry activation in measuring performance towards their Kyoto targets.

The Prime Minister outlined, in a speech to Parliament in 1997 'Safeguarding the Future: Australia's Response to Climate Change' and referenced below, the steps the government would take for Australia to meet its Kyoto Protocol commitments. Against this

background the Commonwealth Government includes the MRET target as a part of the steps it is currently taking.

**Useful References are:**

'Safeguarding the Future: Australia's Response to Climate Change', 20 November 1997, Statement by the Prime Minister", Australian Greenhouse Gas Office, found at; http://www.greenhouse.gov.au/ago/safeguarding.html

'The Kyoto Protocol', Australian Greenhouse Gas Office, found at; http://www.greenhouse.gov.au/international/kyoto/index.html

## NSW Greenhouse Gas Abatement Certificate (NGAC) Scheme

The New South Wales Parliament passed the Greenhouse Benchmarks legislation on the 6th December 2002 known as Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Act 2002.

This legislation implements a mandatory greenhouse benchmark scheme for electricity retailers and other parties to meet mandatory targets for reducing the emissions of greenhouse gases resulting from electricity they supply or consume. The state-wide benchmark for reducing greenhouse gas emissions in NSW is 7.27 tonnes of carbon dioxide equivalent per capita by 2007. This is 5% below the per capita emissions in the Kyoto Protocol baseline year of 1989/90.

To achieve the required reduction in emissions, eligible parties purchase and surrender tradeable certificates called New South Wales Greenhouse Abatement Certificates (NGACs).

A penalty (expressed in $/tonne of carbon dioxide equivalent) is imposed on retailers and other liable parties (market customers), to the extent of the excess of their greenhouse gas emissions above their greenhouse gas emissions benchmark target for each year. This penalty is set at $10.50 per tonne of carbon dioxide equivalent of greenhouse shortfall (CPI indexed from 1 July 2004).

This scheme applies to electricity sales in NSW only.

The NSW Premier has written to the Victorian and South Australian Premiers offering to extend the scheme to these States.

## Queensland 13% Gas Scheme

The main objective of the scheme is to facilitate the uptake of gas as a fuel for electricity generation within Queensland. Its secondary objective is to reduce greenhouse gas emissions.

The Queensland 13% Gas Scheme will require electricity retailers, and other liable parties, to source at least 13% of electricity sold in Queensland from new gas-fired generation for the period 1 January 2005 through to 31 December 2019.

Retailers are the primary liable party and will incur a liability for any electricity sold via a major electricity grid to Queensland end users. Liability for the electricity sold will be based on customer consumption at the customer's meter. The scheme provides an exemption from liability to energy intensive users with consumption greater than 750GWh per annum. These large users must prove substantial economic benefits to Queensland to qualify for the exemption.

Baselines will be imposed on existing generators, with the cut-off date being 24 May 2000.

Compliance will be achieved through the surrender of Gas-fired Electricity Certificates (GECs) by the last business day in April following the year of liability (the first compliance reporting date is 28 April 2006). There is no ramp-up of liability; the target of 13% commences from the first year of liability continuing through to 2019. Non-compliance will be penalised through the imposition of a penalty of $11 per GEC, which will be CPI-linked from 2006-2011. The payment of the penalty is expected to be tax-deductible.

A GEC Registry (similar to the Registry for MRET Scheme certificates) will keep all records of the GECs created and facilitate transfers of GECs between counterparties. One GEC will be created for each MWh of eligible electricity generated

The Scheme will be self-funding with a fee chargeable for all costs, from accreditation and auditing to the creation and transfer of GECs. The revenue generated from the penalty will be paid into "Consolidated Revenue" for the Queensland Government.

The Queensland Government has indicated an implementation timetable commencing early 2004 for the release of the draft Bill proposing the rules for the scheme to industry and stakeholders. As at May 2004 the draft Bill had not been released. The scheme is expected to commence on 1 January 2005.

The Queensland Government has also indicated that the performance of the scheme will be monitoring and a review is likely if the scheme is not working as planned or if a significant national abatement scheme such as a National Emissions Trading Scheme is introduced.

## Victorian Greenhouse Gas Strategy ¾ Consultation

The Victorian Government is working with stakeholders to find practical ways to reduce greenhouse gas emissions in Victoria, while seeking to also ensure a level of investment that promotes a secure and affordable supply of energy.

The Government released "The Greenhouse Challenge for Energy" Consultation Paper in June 2003 and has taken the first round of submissions. The Paper requested a response to the full range of options available to Victoria in meeting its greenhouse gas emission abatement objectives, given its constraints in continuing the utilisation of extensive reserves of low cost coal for coal based investments. The Paper expressed a desire to support a national policy approach to greenhouse gas emissions abatement but suggested that unilateral state action may be required in the interim.

The State Government has more recently contracted two consultants to "assess the effectiveness, relative costs and benefits of policy options to reduce energy-related greenhouse gas emissions while also driving improvements in energy efficiency and facilitating investment in energy supply sources".

The Government has indicated that a draft Position Paper for meeting its Greenhouse Challenge for energy is being prepared and public comment on the Position Paper will be invited in the first half of 2004.