



EnergyAustralia

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Dear Anthea

Caps and Targets Review Issues Paper, April 2013

EnergyAustralia welcomes the opportunity to provide input to the Authority's Caps and Targets Review. EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to nearly 2.8 million residential and business customers. We own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia including coal, gas and wind assets with control of over 5,600 MW of generation in the National Electricity Market.

Introduction

The launch of our Climate Change Strategy in July 2007 was an unparalleled initiative to define our responsibilities, and to measure and manage the impact of our operations on the climate. To date, we remain the only Australian energy utility to publicly commit to comprehensive short, medium and long-term emissions reduction targets. The overriding goal of our Climate Change Strategy is to reduce our emissions by 60 percent by 2050 on a 1990 emissions baseline for the National Electricity Market proportional to EnergyAustralia's market share in 2050. We will meet our targets through several key areas of work including capping our carbon intensity; reducing our emissions; investing in low and zero emission technology; and helping customers manage their own emissions footprint.

An investor's perspective

According to the Energy White Paper 2012 satisfying Australia's future energy needs will require significant levels of investment out to 2030; in the order of \$240 billion for the domestic energy sector and \$290 billion for energy resource development projects.¹ Australia's commitment and efforts to reduce emissions will be a major factor shaping this investment task (along with other factors such as economic growth, technology and fuel availability etc). According to Treasury (2011) energy-related activity could provide around 85 per cent of Australia's domestic abatement by 2035, increasing to around 89 per cent by 2050.² This Review is capable of assisting with this investment task to the extent that it provides the best available indication of what Australia's emission caps and targets ought to be taking a long ranging global perspective.

Sectoral milestones

Assessment of Australia's progress toward meeting its emission caps and targets over time is clearly integral to the purpose of the Authority's Review. There is a logical distinction to be made between covered and uncovered sectors when assessing progress simply because these two categories of emissions must be summed to derive total national emissions. Under-achievement against projections for

¹ Australian Government (2012), *Energy White Paper 2012, Australia's Energy Transformation*.

² Treasury (2011), *Strong growth, low pollution: modelling a carbon price*, Treasury, Canberra.

the uncovered sector has implications for the setting of caps in the covered sector if national emission reduction targets are going to be achieved overtime. Aside from the covered and uncovered distinction, an assessment of Australia's progress in meeting its emission reduction milestones is only ultimately meaningful when applied to total national emissions caps and targets (irrespective of what proportion comes from various sectors in the economy over time).

That the "... Authority does not intend to specify prescriptively what must happen in each sector of the economy ..." is critical to conforming to its guiding principles set out in the *Clean Energy Act 2011* and the *Climate Change Authority Act 2011*. That is, to be "... economically efficient, environmentally effective, equitable and in the public interest ...". However, the problem with applying 'strategic' emissions reductions milestones to different sectors in the economy is that this may establish expectations, and even give rise to public pressure, for policy-makers to then pursue achievement of these milestones, particularly if progress is not being made as originally projected in particular sectors.

Additional measures may then be imposed unnecessarily, just to achieve the milestone, and in a way that distorts the efficiency of abatement activity across the economy. For example, a sector like electricity may choose to import permits against its domestic carbon liability than projected which could have it under-achieve on its milestone. This of course would not represent any compromise to the efficiency or the environmental effectiveness of the sector's contribution to abatement overall.

The electricity sector is particularly exposed in this regard because it is likely to be the only sector subject to 'strategic' milestones for some time (or at least initially).

Gateways approach

Emission reduction gateways (or upper and lower bounds on caps and targets) are likely to be a useful device when considering timeframes beyond 2020 and may in fact be the only way to improve investor certainty with regard to Australia's climate change policy direction over the longer term. Using 10 year gateways starting in 2020 is worthy of consideration. Attempting to set single point caps and targets this far ahead, as opposed to gateways, is likely to be of little value to investors or indeed government and the community. It may end up increasing policy uncertainty if they have to be reneged upon by governments in the future because they essentially sought to impose a false 'certainty' so far into the future. The key factor in determining the usefulness of gateways is their width, which is a way of balancing the need for policy flexibility on the one hand and the need for policy certainty on the other.

International effort sharing

One of the most important issues to resolve within the larger global climate change policy debate is; how much of the global reduction task 'should' Australia accept? To some extent it can only be resolved by international agreement involving some compromise on the part of individual countries. For example Australia may wish to base its assessment on the principle of 'capability' but may end-up having its share determined by the principle of 'responsibility' as part of what is required to support an effective international agreement in the future. As acknowledged by the Authority, the choice of principle(s) "... can have a significant effect on the final result." The four principles described in the Issues Paper could be used to define an upper and lower bound share of possible global emissions reductions for Australia. This could then be fed into the array of factors used to define gateways for caps and targets from 2020 (as described above).

International influence

The ability of Australia's efforts to influence other countries and galvanize greater global efforts is a critical determinant of public and political support for domestic action. To the extent that this ability can be measured by the Authority, an assessment of Australia's leverage in international climate change negotiation would be a particularly useful contribution to the carbon policy debate in Australia. There appears to be little if any similar analysis conducted previously.

Conclusion

EnergyAustralia looks forward to the release of the Draft Report and to contributing further to the Review as the consultation process progresses. Please contact me on (03) 8628 1183 if you have any questions in relation to this submission.

Regards

signed for

Steven Wright
Carbon Policy Manager