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The Climate Change Authority
GPO Box 1944,
Melbourne VIC 3001

By Email: submissions@climatechangeauthority.gov.au

Dear Sir/Madam

ACCIONA Energy's Submission to the Climate Change Authority's Review of Australia's Greenhouse Gas Emission Reduction Goals

Who is ACCIONA?

ACCIONA Energy is one of the world's largest renewable energy independent power producers' with operations covering the development, construction, ownership and operation of renewable energy assets in 16 countries. The company has over 8,500MW of renewable energy assets covering a range of technologies including hydroelectricity, wind, solar PV, solar thermal and biomass.

In Australia, ACCIONA has built and owns three wind farms (one in joint venture) totalling 305MW and has an ongoing pipeline of developments. ACCIONA has also recently completed the construction of the 20MW Royalla Solar Farm in the ACT and is now operating the plant.

The ACCIONA Group operates globally and is also active in infrastructure and water sectors around the world. In addition to energy projects, ACCIONA has a number of other substantial projects in Australian, including:

- *Legacy Way* - ACCIONA is part of the Transit City Joint Venture (JV), designing and constructing the landmark Legacy Way road-tunnelling project in Brisbane. The JV will also operate and maintain the road tunnel for ten years once construction is complete.
- *Warrell Creek to Nambucca Heads Pacific Highway upgrade* – ACCIONA is currently undertaking $950M of upgrade works to the Warrell Creek to Nambucca Heads section of the NSW Government's Pacific Highway upgrade project.
- *East-West Link* – ACCIONA is part of East West Connect, the contractor engaged to design and construct the multi-billion dollar East-West Link in Melbourne.
- *Sydney Light Rail* - ACCIONA is part of the consortium selected by the NSW Government for the design, construction, operation and maintenance of the $1.6B Sydney Light Rail project in Sydney.

ACCIONA prides itself on its corporate leadership in sustainable development and its commitment to meaningful action against climate change. A top priority for ACCIONA is to lead the transition toward low-carbon business models that reduce or mitigate the adverse effects of climate change. We encourage the adoption of ambitious global objectives to reduce emissions and the implementation of projects, products and services that contribute to decreasing greenhouse gases (GHG). As part of this, ACCIONA actively facilitates access to renewable energy, to water and environmentally sustainable infrastructures and promoting energy savings.

ACCIONA's commitment to these causes is underscored by the Company's representation on several highly reputed sustainability indices, such as the Dow Jones Sustainability World Index (DJSI World) and the Dow Jones Stoxx Sustainability Index (DJSI Stoxx), in which ACCIONA obtained the highest score in its sector.

Moreover, ACCIONA has been chosen as a member of the Advisory Board of the Sustainable Energy for All, an initiative of the Secretary General of the United Nations and the President of the World Bank, and to participate in the Steering Committees of the Global Compact LEAD and the Caring 4 Climate initiative, both part of the United Nations Global Compact. ACCIONA is the only Spanish company on the list of the Global 100 Most Sustainable Corporations in the World 2014. We have also been recognized by the Corporate Knights as one of the Top 10 Most Sustainable Utilities in the World, having been ranked second.

Responding to climate change, and in particular developing robust targets for the reduction of GHG emissions, is something ACCIONA is passionate about. ACCIONA welcomes the opportunity to participate in the consultation on the Climate Change Authority's Review of Australia's greenhouse gas (GHG) emission reduction goals.

Considerations for the CCA's Review of Greenhouse Gas Reduction Goals

Climate change poses one of the greatest global challenges. The reports from the United National Intergovernmental Panel on Climate Change (IPCC), amongst others, makes it clear that urgent action is needed to limit the growth in greenhouse gas emissions. They also highlight the effectiveness of pricing carbon in driving measurable and material emission reductions.

The Climate Change Authority (CCA) has been tasked with undertaking a special review of Australia's future GHG emission reduction goals. This review will build on the CCA's 2014 Targets and Progress Review report.

Drawing on our international experience in implementing actions to respond to climate change, and in particular our leadership and participation in international forums focused on polices to support greenhouse gas emission reductions across the numerous jurisdictions in which we operate, ACCIONA would like to focus our response on the actions in the international community and in particular, advocating for an emissions trading mechanism. ACCIONA believes that a price on carbon, and specifically a tradable mechanism, is fundamental and an economically effective policy instrument for Australia to achieve meaningful greenhouse gas reduction targets. ACCIONA would urge the CCA, and the Australian Government, to give due consideration to the reintroduction of a carbon pricing mechanism for Australia.

As the CCA states in their request for submissions, changes in the way we face climate change have been evolving recently in the carbon pricing field: there is a continuous wave of support for the efficiency of carbon trading mechanisms, and the number of governments implementing such schemes continues to increase. Carbon trading schemes are arising as the preferred mechanism to support GHG reductions by the private sector.

1. Science: IPCC 5th Assessment Report ("5AR")

Apart from providing more data about the functioning of climate systems, and thus, reaching more solid conclusions, the 5AR provides meaningful insights relating to greenhouse gas mitigation and of relevance to this paper, carbon pricing mechanisms. It states that:

- Those mechanisms that put a price on carbon (such as cap and trade systems or carbon taxes) can reach mitigation targets in a cost-efficient manner.
- The design of cap and trade systems needs to be improved for the mechanisms to be truly effective. In addition, these instruments contribute to break the relation "emissions increase - GDP increase", through the use that can be given to revenues coming from the tax or the auctioning of the rights.
- There is a tendency to make integrated policies, in which governments influence or even calculate the co-benefits (health, air quality, energy security, energy access, food safety, biodiversity, etc) and elaborate complementary sectorial policies

2. Governments

Following the mentioned trend, governments' commitment has increased both from a top down and a bottom down approach. On the one hand, international negotiations to reach a global agreement are ongoing and are expected to take momentum during the December 2015 Conference of Parties (COP) meeting in Paris. On the other hand, national decisions regarding particular carbon pricing policies are being implemented all over the world.

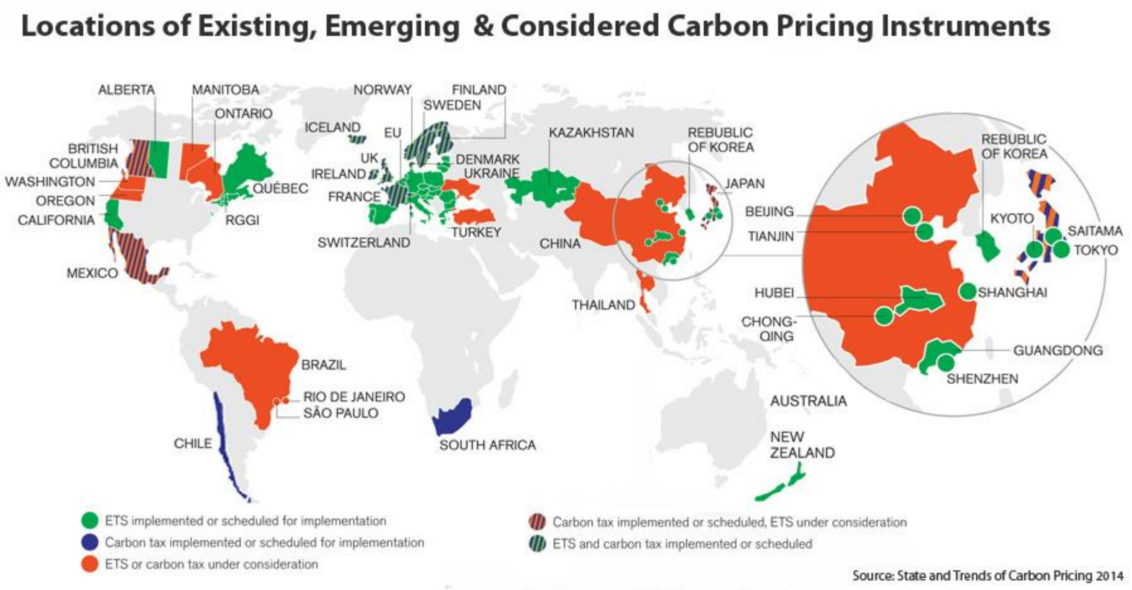
2.1. UNFCCC negotiations towards a global agreement

International negotiations between countries under the UNFCCC framework are ongoing. Several milestones need to be fulfilled before the next COP in Paris, as agreed during the Lima COP last year, the main ones being:

- By the first quarter of 2015, all countries are invited to communicate their Intended Nationally Determined Contributions (INDC)
- By May 2015, the ADP working group (the working group initiated in Durban: Durban Platform for Enhanced Action) needs put a negotiating text for the future agreement at the countries' disposal after working the Annex of the decision. ADP works to build a new inclusive agreement (one that implies emission reductions in all countries, not only in the "developed" ones, like in the Kyoto Protocol), to be ready by end of 2015, and in force from 2020.

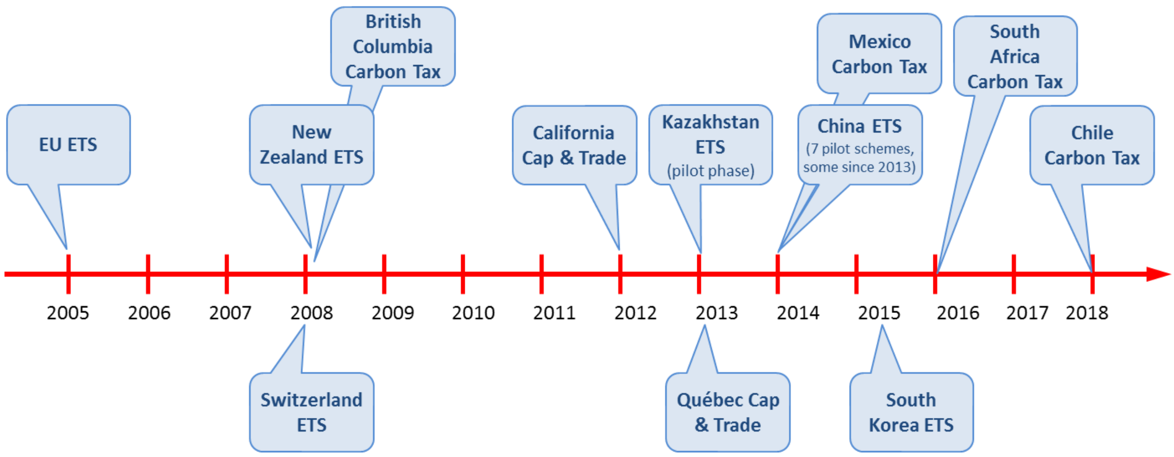
2.2. National policies being developed

Carbon pricing has been adopted or is being considered by several countries and regions. According to a 2014 report by the World Bank, these amount to nearly 40 countries and more than 20 other regions, as shown in the map below:



Regions that are planning to implement or already have some form of carbon pricing represent more than 22% of global emissions. Among the most relevant regions with cap and trade systems, we can highlight the EU, California and Quebec, South Korea and China, while some of the most relevant carbon taxes at the moment are those of British Columbia, Mexico or Chile.

Taking into account their date of entry into force, as represented in the timeline below, some of the schemes are:



Australia is clearly absent from this map with the Australian Government's repeal of Carbon Pricing Mechanism in 2014.

In considering the evolution of carbon trading scheme adoption, the following is noteworthy:

- Later entrants to carbon pricing are learning lessons from early entrants. After the high volatility of prices in the EU ETS, all systems include price stabilization mechanisms in their design, which have resulted in more stable systems. The EU has also taken note of their past mistakes: it has recently approved "backloading" and is currently debating a more regular mechanism (the "Market Stability Reserve"), which is expected to permanently solve the EU-ETS problems and give the adequate price signals for carbon-free investment.
- Limits on the use of offsets have been established in most schemes (both emission trading schemes (ETS) and carbon taxes) to correct the negative effect they can have on prices (e.g. as per the New Zealand market)
- Putting a price on carbon may contribute to breaking the increased emissions-increased GDP relationship via the use of the revenue collected from tariffs or the auctioning of rights: British Columbia (Canada) introduced a carbon tax under a scheme by which the balance remained neutral. Fossil fuel consumption was reduced by 16% (against +3% in the rest of Canada), with a 35% increase in GDP

3. The Private Sector

The private sector is also moving towards a common goal: advocating the efficiencies and flexibility of carbon pricing mechanisms to drive economically efficient and sizable carbon reductions. Carbon pricing support continues to increase as we are approach COP21, and many business organizations are joining the momentum in support of market based emission reduction policies.

- The Carbon Pricing Leadership Coalition: It launched its statement ("Putting a Price on Carbon Statement[1]"), in the Climate Summit of New York last September (2014), and it was backed by more than 1,000 business and investors[2], together with 73 countries, and 22 states, provinces and cities.

  The Coalition was created in 2014 by the World Bank Group in conjunction with partners from business associations including the We Mean Business Coalition (that includes the World Business Council for Sustainable

[1] http://www.worldbank.org/content/dam/Worldbank/document/Carbon-Pricing-Statement-060314.pdf
[2] http://siteresources.worldbank.org/EXTSDNET/Resources/carbon-pricing-supporters-list-UPDATED-110614.pdf

Development), the World Economic Forum, and the United Nations Global Compact's Caring for Climate Initiative.

- Davos 2015: When business and political leaders gathered in Davos 2015 to discuss key issues facing the global economy, the climate was high on the agenda of the World Economic Forum, and discussed in the recently created CEO Climate Leadership Group. This group included participants from more than 40 companies, including 35 CEOS, met and expressed a strong interest in working together throughout 2015, and possibly beyond, to advocate for more ambitious climate action and to deliver concrete, business-led, climate solutions. CEOs were in unanimous agreement in favour of a carbon pricing system.

Carbon pricing as a risk management tool

Carbon pricing is becoming an essential risk management tool demanded by both the financial and business sectors, focusing investment decisions and creating financial benefits for the societies in which it has been introduced. Whilst the pricing of carbon into internal, corporate investment decisions was historically implemented under the auspices of Corporate Social Responsibility policies, this has now evolved into more uniform integration of carbon risk into corporate risk management registers and portfolio investment decisions. Integrating carbon considerations in capital investment decisions and investment strategies is becoming more common. The trigger for this change, together with governmental policy development, has been the growing involvement of financial institutions and pension fund type investors with clear mandates for low emission investments and a demonstrable objective to minimize future carbon exposures.

Demand for a well designed carbon pricing tool

Businesses, through their different working groups, are starting to envisage the principles that a carbon pricing mechanism should follow. At a minimum, the mechanism(s) adopted to implement a price on carbon must be well designed, and comply with the following principles:

- Clear price signal**:** it should give a clear price signal to market participants, sufficient and effective in directing investment.
- Predictability**:** scheme rules and targets must be designed in advance to provide give predictability and long term clarity, whilst avoiding discretional actions by regulators.
- Support economic growth**:** these policies should enhance low carbon economic development and use compensation mechanisms to favour the transition away from a carbon centric economy.

In order to achieve the principles above, and looking at experiences developed so far, there are design characteristics that should be taken into account:

- Price Stabilization Mechanisms**:** Cap and trade systems are developing price stabilization mechanisms that leave room for the market to operate but prevent its failure, both due to too high or too low prices. Reserves are becoming a preferred tool in many systems (Europe, Quebec, Chinese provinces or California are some of the systems choosing the reserve as price stabilization tool).

- Minimize the use of free allocations in cap & trade systems: Although sometimes politically convenient, cap & trade systems should minimize free allocation of allowances. Auctions on the other hand can promote price discovery and market liquidity, and also protect against windfall profits.
- Use of Crediting Mechanism (offsets): The design (cap & trade or carbon tax) may include the use of offsets in the form decided by each system. Some systems support the gradual reduction in eligibility or complete removal of offsets from schemes as they mature (e.g. design in Korea, Mexico and South Africa), channeling resources back to support national economies.
- Wise use of carbon revenues: Either derived from fiscal measures or from trading scheme auction, carbon revenues will result. These revenues need to be effectively channeled to support economy wide transitions away from carbon dependence. For example, recycling of carbon revenues to offset other fiscal imposts (e.g. cuts in the personal income tax, corporate income tax, tax on small business…) or using auction revenues for research, industrial innovation; household efficiency or to support social actions.

ACCIONA believes that adopting a price for carbon is one of the most efficient mechanisms to facilitate large-scale emission reductions and advocates for such in a broader range of forums:

1. ACCIONA joined the World Bank's "Carbon Pricing Leadership Coalition", supporting together with other 1,000 companies the statement issued in the Climate Summit in New York this September backing carbon pricing systems, and actively working in the groups created within the initiative, towards Paris COP21 and beyond.

2. ACCIONA also joined the World Economic Forum initiative "CEO Climate Leadership Group" launched in Davos 2015, to advocate for carbon pricing systems.

3. ACCIONA is also involved in the Caring for Climate initiative. Under the auspices of UN Global Compact, UNEP, and UNFCCC secretariat, the "Caring for Climate Business and Investors Working Group on Carbon Pricing" works with private sector stakeholders groups (companies, investors, institutional investors)

Conclusions

Based on the scientific evidence of the impact of climate change, particularly considering the localised risks and impacts across the Australian economy, environment and population more broadly, combined with the scale and pace of the international communities' commitment in responding to climate change, Australia must step up its engagement in the post-2020 greenhouse gas emission objectives.

It is imperative that Australia takes on a sufficient share of the international GHG reduction burden and adopts more ambitious post 2020 GHG reduction goals. ACCIONA supports the recommended emission reduction goals in the CCA's 2014 Targets and Progress Review.

To ensure these goals are achievable, ACCIONA advocates for effective, targeted policies, with a market based mechanism as cornerstone policy, to drive change and incentivise the continued transformation of the Australian economy. ACCIONA also supports the inclusion of international emission reductions to complement domestic GHG reduction efforts to ensure that Australia GHG reduction targets are achievable in an economically efficient and cost effective manner.

If you have any questions in relation to our response, please contact Melanie Sutton on melanie.sutton@acciona.com.au to discuss further.

Yours sincerely

Melanie Sutton
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