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14 November 2012

Ms Anthea Harris
Chief Executive Officer
Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

**Attention – Submissions**

Dear Ms Harris,

**Renewable Energy Target Review – Discussion Paper – October 2012**

Chevron Australia (Chevron) appreciates the opportunity to provide feedback on the above discussion paper and the Climate Change Authority's (the Authority) draft recommendations on the Renewable Energy Target (RET) Review.

Chevron refers to our previous submission of 14 September 2012, which was particularly concerned with the removal of the self generator exemption, should the RET remain in place. The recommendations with regard to this matter outlined in the discussion paper are of particular concern for Chevron and this submission is intended to further the positions put forward in our previous submission.

Chevron continues to argue that the RET is non-complementary to the Clean Energy Scheme and the removal of policy measures such as the RET that drive emissions reduction at high cost, should be a priority. However, if Australia is to retain the RET, Chevron supports the proposals in the Discussion Paper to provide greater flexibility and choice to impacted parties. In particular we support the proposals to make partial exemption certificates tradable and introduce an opt-in scheme for large energy users.

As mentioned in our previous submission, the current growth in Australia's LNG industry, including more than $70 billion worth of investment in the Chevron-operated Gorgon and Wheatstone Projects, is expected to bring significant benefits to Australia including direct and indirect employment, government revenues, economic growth, investment in local goods and services and security of natural gas supply. Investment in these projects has played an important role in ensuring Australia has not felt the global economic downturn to the degree experience in other economies.

LNG processing plants include significant electrical generation capacity and the RET self generator exemption has been an important consideration in the design of these projects.

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Chevron is concerned that over the last three years the costs of operating in Australia have increased significantly as a result of changes to government policy. Australia's LNG industry has faced significantly increased costs due to:

- The introduction of the Clean Energy Act and the inadequate assistance provided to trade exposed industry under the Jobs and Competitiveness Program;
- The increase in fuel taxation in order to price fuel usage related greenhouse gas emissions;
- Extended Petroleum Resources Rent Tax;
- Condensate excise extension; and
- Retrospective transfer pricing legislation

Collectively these represent a significant additional cost burden that is not being imposed in other economies and is an important consideration for new investment in future LNG projects in Australia. The proposed removal of the self generator exemption will add to these additional costs.

It is important to note that while seven new Australian LNG projects were approved during the period 2009 to 2011 there have been no new LNG projects approved in the last 18 months. Chevron is concerned that continual changes in policy settings that impose additional costs on Australia's LNG industry are acting as a disincentive to invest in Australia.

**Draft Recommendation 20**

*R.20. The preliminary view of the Authority is that there is no strong case for the exemption from liability under the Renewable Energy Target for self-generation, and that the exemption should be removed for new self-generation (but retained for existing self-generators).*

Chevron welcomes the recognition of the importance of maintaining current rules for existing self generators and would contend that as a minimum the continuation of the self generator exemption should be clarified to extend to those projects where a Final Investment Decision had been made prior to the release of the Discussion Paper.

While the Authority has indicated it does not see a strong case for maintaining the self-generator exemption, it is important to consider the role the self-generator exemption has played in attracting investment to Australia, particularly in the LNG industry. The Authority's draft recommendation to retain the RET is based on the need to provide investment certainty for the renewable energy industry, however Chevron recommends that the Authority reconsider the how the removal of the self generator exemption will impact upon investment certainty in industries that involve self generation.

The draft recommendation to remove the self generator exemption appears to be based on the following grounds, which are addressed in turn below:

- Economic efficiency;
- Introduction of EITE assistance;
- Increased costs for other liable parties; and
- Economic distortion.

<u>Economic efficiency</u>

Chevron agrees that exemptions in any scheme are undesirable from an economic efficiency perspective. However, as per our previous submission we contend that with the introduction of the Clean Energy Act the Renewable Energy Target can no longer be justified on the grounds or reducing greenhouse gas emissions. or a program to assist the commercial deployment of emerging technology. The RET must be seen as economically inefficient subsidy for a favoured industry.

The cost of the RET on the Australian economy has been highlighted in many submissions and for economic efficiency reasons should be phased out.

Introduction of EITE assistance

In its issues paper, the Authority asked if the self generator exemption is required with the introduction of EITE assistance. The Discussion Paper does not appear to answer this question but does make the statement on page 117 that "concerns about trade exposure are equally valid whether a project generates its own electricity or not". This would suggest there should be no link between the introduction of EITE assistance and the operation of the self generator exemption.

Chevron also wishes to highlight our view that the method for determining EITE assistance discriminates against capital intensive industries such as LNG, and we look forward to providing further advice with regard to this matter in due course.

Cost for liable parties

While exemptions may increase costs for liable parties, the Authority has acknowledged that "in quantitative terms, the effect is estimated to be small". It is important to weigh this small cost impact on liable parties with the very substantial costs that would be imposed on individual self generators should the self generator exemption be removed.

The Authority states in its report that self generators are not required to report their electricity generation as part of an electricity market. The Authority would be aware that data on the amount of electricity generated by individual facilities is available to Government through the National Greenhouse and Energy Reporting Act.

Prior to any further consideration around the withdraw the self generator exemption, Chevron recommends that further analysis be undertaken to accurately quantify the effect this would have on the price of renewable energy certificates so as to determine if removal of the self generator exemption will have any noticeable impact on the price of these units and hence the costs for liable parties. Chevron would contend that removal of the exemption is unlikely to have a discernible impact on the price of renewable energy certificates. This then needs to be balanced against the considerable cost impost on new self generators.

Exemptions create economic distortions

The Authority makes the observation that "exemptions may create undesirable distortions, by encouraging self-generation when it would otherwise have been uneconomic to do so, or by creating competitive distortions between firms in the same industry". However, it is also important to consider the impact the RET and the removal of the self generation exemption may have on the design and operation of facilities that generate their own electricity.

As an example, most LNG processing plants currently use gas turbines to provide mechanical power. A number of LNG technology suppliers are investigating the use of electric drive plants in order to improve overall plant operability and energy efficiency but this would require a significant increase in electrical power generation. The loss of the self generator exemption would result in a significant additional cost impost on the use of this electric drive technology and act as a disincentive to the uptake of a technology that is potentially more energy efficient.

The self generator exemption ensures that firms make the most appropriate choices when designing new facilities that include self generation.

In summary, the removal of the exemption will impose a significant additional cost on self generators, further erode investor perceptions of Australia, and is unlikely to make any difference to the costs faced by other liable entities. The self generator exemption ensures that firms wishing to develop large integrated energy projects make appropriate decisions about how their plants are designed. Loss of the self generator exemption has the potential to distort how these facilities are designed and may drive design decisions towards using the less energy efficient options. For as long as the RET is in effect, Chevron recommend no changes be made to the self generator exemption.

Chevron appreciates the opportunity to provide additional input to this review. Should you wish to discuss any aspects of this submission, please contact John Torkington on trkn@chevron.com or (08) 9216 4025.

Yours sincerely

Peter Fairclough
**General Manager – Policy, Government and Public Affairs**