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Greenhouse Policy Unit
Department of Sustainability and Environment
8 Nicholson Street
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28 February 2005
Re: Victorian Greenhouse Challenge for Energy

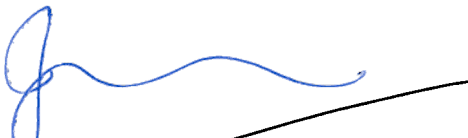
Dear Sir or Madam

AGL welcomes the opportunity to provide a submission on the Victorian Government's Position Paper, *The Greenhouse Challenge for Energy*.

AGL is committed to playing our part in reducing greenhouse gas emissions. As such, we support the Government's objective of reducing emissions while maintaining a secure and efficient energy supply.

Please find enclosed AGL's submission that addresses these issues. Do not hesitate to contact Ms Mary Darwell, Manager Group Environment, on (02) 9921 2631 if you have any queries.

Yours sincerely



Jane McAloon
Group Manager
Corporate and External Services

AGL SUBMISSION ON THE GREENHOUSE CHALLENGE FOR ENERGY VICTORIAN GOVERNMENT POSITION PAPER

1. Introduction

AGL supports the Victorian Government's objective of reducing greenhouse gas emissions from the energy sector while maintaining a secure, efficient and affordable energy supply.

In 2004, AGL published its first Sustainability Report. The Report establishes a framework for ongoing public reporting about the sustainability of AGL's social, environmental and economic activities. Stakeholders are able to read about AGL's impact on the environment and actions being taken to reduce this impact.

One of the most challenging environmental issues facing the energy sector is reducing greenhouse gas emissions. The 2004 Sustainability Report measures AGL's greenhouse gas emissions footprint, both in terms of emissions directly produced by businesses owned by AGL and emissions associated with AGL's supply of energy to customers. Copies of the Sustainability Report can be obtained from AGL's website (www.agl.com.au).

Set out below are AGL's views on the initiatives flagged by the Government in the Position Paper.

2. Principles to underpin a National Policy Framework

(a) Emissions Trading

The Position Paper states that Victoria supports development and implementation of a national emissions trading scheme which would be led by the Commonwealth Government in close consultation with the States and Territories.


AGL supports the development of a coordinated national greenhouse gas emission reduction policy. In particular, AGL supports the Energy Supply Association of Australia's (**esaa**) call for a single greenhouse gas emission target for 2050 that applies to the whole economy and with clear milestones along the way. This approach would facilitate an increase in investor confidence by providing regulatory certainty and reduce the potential for market distortions and perverse outcomes.

Currently, there are a number of greenhouse abatement schemes operating at both the State and Commonwealth level. Each scheme imposes portfolio risk management, compliance and administrative costs on both the energy sector and consumers. Integration of these policies into a single nationally focused policy would reduce these transaction costs.

As a general policy principle, AGL believes that a national approach to greenhouse policy is preferable. It would be desirable for a national approach to be jointly developed by the Commonwealth and States and Territories. It should be noted that the Australian Greenhouse Office has forecast that Australia is likely to meet its emissions target of 108% of 1990 levels by 2012.

Greenhouse gas abatement is an economy-wide issue. Unfortunately, many of the greenhouse policies which have been implemented by the Commonwealth and State Governments have only focused on the stationary energy sector. A comprehensive set of policies capturing all emitting sectors needs to be developed. A market based approach which allows for a wide-array of abatement options would allow Australia to meet its international obligations at the lowest possible cost.

The Position Paper states that if the Commonwealth Government does not commit to establishing a national emissions trading scheme, the Victorian Government will continue to work closely with the other States and Territories to design a scheme which would suit their interests.



This approach is preferable to a policy environment where State Governments act independently of each other. However, AGL would prefer to see agreement reached between the different tiers of Government on the appropriate national policy response necessary to address climate change.

The Position Paper states that the following key principles are used to guide the Government's negotiations with the other States and Territories. An emissions trading scheme should:

be designed to deliver greenhouse gas emission reductions while maintaining a prosperous economy;

result in the reasonable sharing of any economic burden between jurisdictions;

seek to ensure that both the potential vulnerability of energy-intensive trade-exposed industries and electricity generation from brown coal are recognised and appropriately addressed through the allocation process;

encourage new investment in the best available technology for the power generation sector; and

appropriately deal with the issue of maintaining policy flexibility for governments while providing certainty for investors.

These principles are appropriate but not comprehensive. Achieving emission reductions in a least cost manner should be the overarching objective of a national greenhouse policy.

(b) National Principles

AGL believes that the States and the Commonwealth should develop a set of national principles which could be used to guide development of a national approach to greenhouse gas reduction. The following principles may provide a useful starting point:

Policy objectives. A national approach should be established to provide for emissions reductions which is consistent with Australia's international obligations.

Cost. Reducing greenhouse gas emissions should be achieved through least cost measures.


Cost pass through. The continued regulation of electricity prices restricts the ability of retailers to pass regulatory compliance costs through to customers. Consideration should be given to ensuring that costs, and therefore price signals, can be passed through to consumers.

Grandfathering. Investments made in the past, when knowledge of carbon risk was limited, should be fairly treated. Special consideration should be given to industries with unique circumstances.

Coverage. It is not possible to reduce emissions at least cost without incorporating all emitting sources.

Options for offsets. To comply with the overarching objective of minimising cost, all forms of offsets should be considered. Early abatement should be encouraged through recognition of all scientifically verifiable abatement alternatives.

Administrative simplicity. Greenhouse policies should be administratively simple. Importantly, investments in abatement which have been recognised under existing policies (e.g. Mandatory Renewable Energy Target, NSW Greenhouse Gas Abatement Scheme) should be recognised.



Maintaining property rights. An important element of any transition to a national approach will be determining who owns existing abatement. Abatement which has been purchased under an existing scheme may become more valuable under a national approach. Consideration needs to be given towards establishing whether the holder of the abatement certificate or abatement creator is the owner of this premium.

(c) Victorian Government-Only Approach

AGL agrees with the Victorian Government's decision not to proceed with a Victorian-only emissions trading scheme. As highlighted in the Government's Position Paper, there are a number of limitations associated with pursuing a State-based scheme.

While AGL has provided some feedback in this submission on an appropriate national greenhouse gas reduction policy, more detailed consultation should be undertaken by the Commonwealth, States and Territories before a single policy is put in place.

3. Emissions Reporting and Disclosure

(a) Emissions Reporting Standards

The Environment Protection and Heritage Council and Ministerial Council on Energy are considering how emissions reporting and disclosure could be progressed nationally. It is anticipated that a decision will be made on this issue by July 2005.

The Position Paper states that if a national approach to reporting and disclosure is not achieved within a reasonable timeframe, Victoria will introduce its own reporting and disclosure requirements for large emitters in Victoria.

AGL does not support the introduction of separate Victorian reporting and disclosure requirements. There are already a number of reporting requirements which energy businesses are required to comply with at both the State and Commonwealth level (e.g. Greenhouse Challenge and NSW Greenhouse Gas Abatement Scheme). Furthermore, there are additional requirements being proposed by other Governments such as the National Abatement Register under the Greenhouse Challenge Plus program.

AGL would prefer emissions reporting standards to be nationally consistent. The burden of complying with different reporting requirements in different jurisdictions is unnecessary and expensive. If national standards cannot be developed, jurisdictions should at least harmonise requirements where possible.

(b) Principles

AGL believes that the following principles should be used when developing emission reporting requirements:

Information should only be collected where it is necessary to measure a business' compliance with regulatory requirements. The collection of additional information is unnecessary and adds to the costs of energy businesses and consumers.

The timing of information collection should be driven by the reason for its collection. Where information is needed to assess a company's annual compliance, an annual return would be appropriate.

Commercial in confidence information should not be collected by Governments. This would include information about business costs, prices and investment strategies.

The mechanism for reporting emissions should be administratively simple. Where possible, the Government should provide a single entry-point for all information requests. It is inefficient for both business and Government to have multiple reporting arrangements for similar information.

Information collection requirements should be outcomes focused. This would allow for flexibility in how companies report their emissions. For example, emissions per unit of output may be a more effective measurement for some industries than total emissions.

(c) AGL's Current Emissions Reporting

AGL has commenced disclosure of its emissions to the public through our Sustainability Report. The 2004 Sustainability Report documented the following information for the 2003/04 financial year:

The greenhouse gas emissions produced by the individual businesses AGL owns.

The total emissions associated with the wholesale electricity and gas purchased and sold to our customers.

The greenhouse intensity of AGL's energy supply.

The greenhouse emissions produced by our day to day operations (e.g. vehicle emissions).

4. Victorian Energy Technology Innovation Strategy

The Position Paper states that the Victorian Government will establish an Energy Technology Innovation Strategy. The Strategy is to support development of new technologies which will maximise the Victorian energy sector's ability to reduce emissions.

AGL has a minority interest investment in the Loy Yang A power station. In the past few years, significant capital expenditure has been directed towards improving the plant's greenhouse emissions performance. The company estimates that since 1997, greenhouse gas emissions have been reduced by 1 Mt per annum as a result of technological and efficiency improvements.

Loy Yang provides financial support to the Cooperative Research Centre for Clean Power from Lignite. The Centre has recently announced successful trials of Mechanical Thermal Expression (MTE). A 15 tonne per hour pilot plant is expected to be constructed at Loy Yang power in the near future.

AGL believes that the priority area for research, development, demonstration and commercialisation should be in areas in which Victoria has a strategic advantage. As outlined above, there is significant work being done on brown coal drying technology which may produce cost effective and commercial emission reductions. Given Victoria's large coal reserves, sequestering technologies could also be in Victoria's strategic interest.

The focus of the Strategy should be on directing Government investment support to the most appropriate projects. The Position Paper notes that the Strategy will be designed to 'strengthen Victoria's capacity to progress technologies along the technology supply chain'. Based on this information, it appears that the objective of the Strategy will be to 'link' technological developments to commercial opportunities.

Given that the Commonwealth is also involved in technological development through the Energy White Paper and its support of the tertiary sector and Cooperative Research Centres, careful consideration will need to be given to harmonising the activities of the Victorian and Commonwealth Governments. This will ensure that investment opportunities are maximised.

5. Expansion of the Mandatory Renewable Energy Target

The Victorian Government has stated that the Mandatory Renewable Energy Target (MRET) should be expanded to 19,000 GWh by 2010. In June 2004, the Commonwealth Government decided not to increase the size of the target.

It is understood that State Energy Ministers are now considering whether a State-based mandatory renewable energy target should be developed.

The MRET scheme is a Commonwealth initiative. If a State-based target was adopted simultaneously, another level of duplication would be added to the increasing regulatory burden of energy companies operating in the National Electricity Market. Energy businesses would be required to comply with five different schemes designed to reduce greenhouse emissions or promote renewable energy.

It is unclear how this policy is consistent with the work being done by the Ministerial Council on Energy to develop a 'national' distribution and retail regulatory framework. State-based renewable energy targets would further fragment the national electricity retail market into a series of State based markets. This fragmentation of State markets would add unnecessarily to consumer energy prices. Each additional regulatory requirement involves transaction costs (e.g. portfolio risk management costs, compliance costs, verification and auditing costs) which increases consumer prices.

If the Victorian Government and other State Governments do choose to implement a State-based MRET, appropriate cost pass through mechanisms will need to be in place. The continued regulation of electricity prices restricts the ability of retailers to pass regulatory compliance costs through to customers.

6. Victorian Renewable Energy Strategy

The Position Paper states that emissions trading is unlikely to significantly promote renewable energy projects in the short-term. The Victorian Government has already established two main targets:

To have 10% of Victoria's electricity consumption provided by renewable energy by 2010.

To facilitate the development of up to 1000 MW of wind energy in appropriate locations by 2006.

There is an important distinction between the objectives of a national greenhouse policy and a renewable energy strategy. The objectives of each policy are different but related and complementary. A national greenhouse policy should be designed to reduce emissions, whereas a renewable energy strategy should identify and correct barriers to investment in the renewable energy sector.

With this in mind, the Victorian Renewable Energy Strategy should address issues which are currently discouraging investment in renewable technologies. For example:

Many of the greenhouse abatement schemes in Australia do not provide sufficient certainty beyond the end of the decade. Because investments in power generation involve lifespans of several decades, the Strategy should provide certainty for investors with regard to the ongoing treatment of greenhouse credits.

The planning and approvals process is often too long. The Strategy should streamline how projects are approved.

7. Victorian Energy Efficiency Strategy

The Position Paper states that the Victorian Government will implement an Energy Efficiency Strategy. The Strategy is to build on existing measures and initiate new policies and programs. It is to be developed by mid-2005 and should incorporate actions from Stage 1 of the National Framework for Energy Efficiency (NFEE).

AGL supports the incorporation of the Stage 1 actions into the Victorian Government's Energy Efficiency Strategy. Consideration should also be given to incorporating the findings

of the Productivity Commission's review into energy efficiency. AGL understands that a draft report is to be released in April 2005.

By integrating the work of the Productivity Commission into the Strategy, the Victorian Government will be better placed to develop a 'national' strategy in consultation with the Commonwealth and other States and Territories. Energy businesses and the community more generally may face increased compliance costs if there are different energy efficiency policies in each jurisdiction.

8. Interim Measures

The Position Paper invites comment on interim measures which could be implemented while a national emissions trading scheme is developed. AGL would prefer to see a national long term policy response rather than specific State-based interim measures.

Interim measures will not provide the necessary certainty for business to minimise greenhouse emissions in a least cost manner. The transaction costs associated with developing an interim policy would far outweigh any benefits.

Furthermore, investor confidence will be undermined by further 'temporary' changes to the regulatory framework. This is not desirable given that investment in new generation capacity will be necessary over the coming decade to meet the forecast increase in demand.