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The Climate Change Team
Sustainability and Climate Change Division
Department of the Premier and Cabinet
GPO Box 2243
ADELAIDE SA 5001

Dear Sir/Madam

AGL welcomes the opportunity to comment on the draft *Climate Change and Greenhouse Emissions Reduction Bill 2006*. AGL believes that reducing greenhouse gas emissions is the shared responsibility of governments, industry and the community. AGL is a strong supporter of the renewable energy industry and applauds the government for developing this legislation.

Please find enclosed AGL's submission on the Discussion Paper. Should you require further information, please contact Tim Nelson, Manager Carbon and Renewable Strategy on (02) 9921 2516 or by email at tanelson@agl.com.au.

Yours sincerely

Jeff Dimery
General Manager
Merchant Power

AGL SUBMISSION ON CLIMATE AND GREENHOUSE EMISSIONS REDUCTION BILL 2006

1. Introduction

AGL is a leading energy company, with significant electricity and gas customer bases in South Australia, Victoria and New South Wales. AGL is also a significant producer of energy with interests in upstream gas developments and power stations. AGL generation assets include Loy Yang Power (minority investment), a number of hydro assets in Victoria and NSW, the Wattle Point wind farm, the Hallett peaking power station in South Australia and the Somerton peaking power station in Victoria. We have also enabled additional wind farm development within South Australia through engaging in 100% offtake agreements for the Star Fish Hill and Canunda Wind Farms.

AGL supports the *Climate Change and Greenhouse Emissions Reduction Bill 2006*. The Bill provides for a comprehensive framework for reducing greenhouse gas emissions. AGL believes that further work is necessary to develop mechanisms and specific policy measures to allow the objectives of the legislation to be met. However, the Bill provides clear signals to investors regarding the need to consider greenhouse gas emissions when considering investments in South Australia.

2. AGL Greenhouse Gas Policy

The AGL Greenhouse Gas Policy provides a comprehensive policy statement on the need to reduce greenhouse gas emissions. The policy calls for the establishment of a long-term greenhouse gas emission reduction target for 2050 and the creation of market-based mechanisms to achieve this goal.

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 abatement. The following principles may provide a useful starting point:

- **National Management.** Greenhouse gas abatement policy should be developed on a national basis, with support from the States. The intent of existing State based schemes should be incorporated into a national scheme to avoid confusion, lower compliance costs and achieve uniform outcomes.
- **Clear policy objectives.** A clear emissions reduction objective should be set with minimal, unplanned regulatory interference once established. This objective should be consistent with international policy.
- **Economy-wide approach.** Greenhouse gas abatement policies adopted should include all sectors of the economy.
- **Least cost abatement.** Greenhouse gas abatement should be pursued on a least cost basis. This may involve the introduction of a carbon trading scheme so that least cost solutions can be determined by the market. The use of natural gas in the generation of electricity will prove to be a significant low cost way for Australia to reduce greenhouse emissions. Impediments to least cost outcomes should be avoided.
- **Management of price impact.** Clear consumer price signals should be allowed. Price shocks to energy end users and export industries should be minimised through phased programs and long-term policies.
- **Coverage.** Greenhouse policy should cover carbon dioxide equivalent (all six main greenhouse gases).
- **Equitable allocation of emissions rights.** Consideration needs to be given to the allocation of an emissions base and rights to emit. Investments made in the context of current regulatory settings should be recognised. Equitable 'grandfathering' of emission levels should be considered.

- Administrative simplicity. A national approach should be administratively simple and facilitate international linkages.
- Development of new technologies. Technologies that can reduce greenhouse gas emissions should be supported.

In addition to supporting a national greenhouse gas policy, AGL also believes that policies which provide additional stimulus for the development and deployment of renewable and low emission technologies should be supported. Recent research undertaken by AGL, Frontier Economics and WWF-Australia has demonstrated that increased uptake of renewable energy is one of many measures that will be required if significant emission reductions are to be achieved. A copy of the Executive Summary and the Full Report are attached to this submission.

3. Targets and Investor Certainty

AGL strongly supports the greenhouse gas emission reduction target established by the Bill. AGL acknowledges that there is broad agreement among climate scientists that emission reductions of 60% relative to 1990 levels are required to prevent dangerous climate change. By establishing this target in legislation, the South Australian Government is providing an effective signal to investors about the need to consider the greenhouse gas emissions profile of new investments.

Experience from other non-mandatory schemes such as the NSW Electricity Licensing Scheme (the precursor to the NSW Greenhouse Gas Abatement Scheme) has shown that for real abatement measures to be implemented, the schemes must be made mandatory in nature. Further, for investment in either abatement, renewable or low emission technologies a linear target with temporal certainty provides the greatest incentive for investment.

While AGL supports this legislation, an agreed national target would be preferred. Unfortunately, if the State-based target is pursued without an agreed international and national policy framework, it may not be effective in mitigating climate change associated with increasing greenhouse gas emissions.

The South Australian economy and South Australian energy sector are producing fewer emissions per head of population than many other States. The most cost-effective options for immediately reducing emissions in the energy sector are likely to be found in other States with higher emissions profiles. If the proposed 2020 target is implemented only in South Australia, overall emissions in the energy sector may actually increase because of greater use of higher intensity interstate generation.

4. Consultation

The draft legislation provides scope for the Minister to adjust the principal emission reduction target and sectoral sub-targets over time. AGL believes that public consultation is crucial in this context. Changes to the targets could have significant impacts on the commerciality of investments made once the targets are initially established. As such, it is very important that industry and the community more broadly have the opportunity to comment on proposed changes. While this is recognised in the Bill once (in Clause 5(3b)), it should be established as a broad principle underpinning any potential changes to the board targets or sectoral targets.

5. Voluntary Carbon Offset Programs

AGL strongly supports the establishment of voluntary carbon offset programs. Much of the regulatory infrastructure required to facilitate these programs is already in place through the Australian Greenhouse Office Greenhouse Friendly™ program. Under this program, greenhouse gas abatement creators such as AGL can become accredited under the program and create Greenhouse Friendly certificates. These certificates can then be sold to companies

wishing to voluntarily offset their emissions. In this context, AGL believes that the South Australian Government should focus on:

- Raising awareness within the South Australian corporate sector about the need to reduce greenhouse gas emissions;
- Creating demand for voluntary carbon offsets by establishing programs which promote businesses that purchase offsets to reduce their net greenhouse gas emissions;
- Adopting a leading position by ensuring all arms of the administration have at the very least, neutralised part of their GHG footprint; and
- Seeking to engage jurisdictions and organisations from overseas that have implemented similar voluntarily based schemes (outside of the Kyoto Protocol) such as the Chicago Climate Exchange, the Japanese Voluntary Emissions Trading Scheme and the United Kingdom based Climate Change Agreements.

Many of the schemes listed above are voluntary in nature. However, they provide additional yet relatively minor incentives to industry through tax concessions to achieve the goals established within the respective schemes. Providing incentives helps to mitigate any 'free-riding' that may occur.

6. Increased Support for Green Power

Given the Commonwealth's Mandatory Renewable Energy Target is nearing completion of the 9,500GWh pa of renewable generation, the uptake of additional renewable technologies will be limited within South Australia. A way in which South Australia may seek to continue its support of this industry and encourage low emission or emission neutral generation would be to encourage business and industry to increase their use of Green Power.

7. Sectoral Targets – Energy

Demand for electricity is growing throughout much of Australia. Over the next decade significant investment in new electricity generation capacity is likely to be required to meet this new demand. In addition, investment will be required to replace existing assets that reach the end of their economic lives.

Decisions made about the types of capacity installed will 'lock in' a certain level of emissions. Generally, the capital-intensive nature of electricity generation means that the emissions profile of a generator is not easily altered after it is installed. It is therefore crucial that policy makers be aware of the implications of current decision making on emission paths for the next few decades.

There are a number of technologies available that can reduce emissions currently associated with electricity generation. However, only gas-fired generation technologies are readily available at relatively low costs. Renewable and sequestration technologies are becoming cheaper and over time, further technological development will enhance their prospects.

Combined cycle gas generation has an emissions intensity of around 0.4 tonnes of greenhouse gas emissions per megawatt hour of electricity produced. This is significantly lower than other fossil fuel technologies. By utilising gas to produce electricity in the medium term, emissions can be reduced while further development of low emission technologies occurs. Importantly, Australia has significant reserves of gas which are available today. Work has already commenced on connecting additional reserves to the southeast Australian market.

AGL believes these factors should be taken into account when considering sectoral targets. The policy objectives for establishing sub-targets should be explicitly documented. For example, if renewable energy targets (such as the proposed 20% by 2014) are to be established, it should be recognised that the objective of such targets is to promote the development and deployment of renewable technologies. If greenhouse gas emission

reduction targets are adopted in the energy sector, it should be recognised that the objective of such targets is to reduce greenhouse gas emissions.