



TRUenergy Pty Ltd
ABN 99 086 014 968

Level 33, 385 Bourke Street
Melbourne Victoria 3000
Telephone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@truenergy.com.au
www.truenergy.com.au

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Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
Canberra ACT 2600
Australia
newtaxes@aph.gov.au

RE: Select Committee on the Scrutiny of New Taxes

TRUenergy welcomes the opportunity to present its views to the Select Committee specifically on the issue of "... a carbon tax, or any other mechanism to put a price on carbon ..." (2(a) TOR).

It has been TRUenergy's strong contention since the commencement of the carbon policy debate in Australia several years ago that a well designed carbon pricing mechanism is the centre-piece of an effective, efficient climate change policy framework. Such a framework would deliver:

- *investor certainty ex ante* – by creating an explicit, market-based price of carbon across all sectors of the economy to determine the new entrant mix of energy generation and abatement technologies more broadly;
- *investor certainty ex post* – by adopting an assistance methodology that preserves the balance sheet values of those most adversely affected by the introduction of a price on carbon to enable continued investment in low emission assets going forward;
- *incentives for research, development and demonstration* – by allocating public funds to the development of zero and low emission technologies with the greatest potential to reduce carbon emissions at least cost in the long run;
- *incentives for commercialisation of low and zero emission technologies* – by implementing a national mechanism that facilitates deployment of these technologies after their demonstration phase; and
- *incentives for energy efficiency improvements* – by implementing non-price based, national mechanisms that address residual market failures impeding greater levels of energy efficiency.

(b) the short and long term impact of those new taxes on the economy, industry, trade, jobs, investment, the cost of living, electricity prices and the Federation;

A carbon tax or any other mechanism to put a price on carbon (such as an emissions trading scheme) will have significant short and long term impacts on the Australian economy. The resulting economic structural adjustment would be among the largest the Australian economy has ever undergone.

The magnitude of transformation in question demands that policy-makers carefully consider the balance-sheet impacts of policy design features for incumbent investments. The impacts are likely to be most dramatic for owners of carbon intensive, long-lived assets, such as coal-fired generation infrastructure (with operational lives spanning three to four decades). It is imperative to the task of attracting sufficient new investment in low carbon emitting generation technologies that the policy framework includes a method of delivering structural adjustment assistance to incumbent asset owners to the full extent of their balance sheet impairment. This becomes even more critical in energy security terms in the context of growing demand for stationary energy which already requires vast sums of capital to keep pace with. It is important to recognize some incumbent energy sector investors such as TRUenergy are also investing substantially in low carbon generation technologies for the future and that the financial 'health' of their balance sheets determines the extent to which their shareholders can continue to pursue such a strategy.

(c) estimated revenue from those new taxes and any related spending commitments;

The quantum of revenue from a carbon tax or any other mechanism to put a price on carbon (such as an emissions trading scheme) is secondary to the policy objective. It is the pursuit of a carbon emissions reduction target and/or appropriate cost containment that is important first and foremost. The revenue raised is a side-effect reflecting the cost of the externality being addressed by the policy and its amount is not part of the policy objective(s) setting process.

Once raised however, the revenue is of potential benefit to the community because it can be used to lower the cost of the carbon policy framework overall by reducing the severity of its distributional consequences for consumers and shareholders alike. Structural assistance to investors most adversely impacted by the introduction of the policy and to consumers most vulnerable to its introduction ought to form the revenue/spending commitment priorities. An appropriate carbon pricing mechanism will ensure that the environmental objectives also be satisfied irrespective of the revenue is recycled.

(d) the likely effectiveness of these taxes and related policies in achieving their stated policy objectives;

The effectiveness of a carbon tax or any other mechanism to put a price on carbon (such as an emissions trading scheme) will be in large part determined by the smoothness of its implementation and the stability of its application over time (assuming its design fundamentals are sound to begin with). The stranding of assets referred to above in response to part b) would cause unnecessary economic dislocation which adds unnecessary costs to the policy process. Equally, an unstable policy environment would impede efficient new investment decisions, again because of the potential to cause asset value stranding in the future. For example, if a carbon policy framework was introduced and then dismantled in the future or 'tinkered' with in unanticipated ways then new investments may be stranded as a result. Investors' general perception of policy smoothness and stability is critical in this regard.

The effectiveness of a carbon policy framework is maximised if it maintains the financial 'health' of incumbent investors and provides policy stability upon which new investments could be reliably made into the future.

(e) any administrative implementation issues at a Commonwealth, state and territory level;

A carbon tax or any other mechanism to put a price on carbon (such as an emissions trading scheme) can only be least cost if it is designed and implemented on a national basis. Further, jurisdiction-based policies that overlap or seek to address the same market failures would only add to the overall costs of achieving the policy objective(s). Least cost outcomes necessitate a phasing out of such jurisdiction-based schemes (with appropriate regard to investments made in good faith under those respective policy conditions).

(f) an international comparison of relevant taxation arrangements;

International comparisons of a carbon tax or any other mechanism to put a price on carbon (such as an emissions trading scheme) can inform policy-makers provided the comparisons undertaken to rigorously estimate the economy-wide impact of the measures and therefore the 'comparable effort' implied by policy targets across countries. A simple analysis of the nominal carbon price implied by a policy may not always reveal this. For example country A may have a higher implied carbon price level because of its renewable energy subsidy scheme compared to country B which has a gas subsidy scheme. However country B may be achieving a greater level of abatement because its costs per tonne of carbon abated are lower than for country A.

(g) alternatives to any proposed new taxes, including direct action alternatives; and

It is important to recognise upfront that policy alternatives to a carbon tax or any other mechanism to put a price on carbon (such as an emissions trading scheme) still have an associated implied price on carbon. All potentially least cost alternatives (including hybrids) ought to be considered provided they are capable of achieving the policy objective(s).

(h) any other related matter.

Policy alternatives to a carbon tax such as an emissions trading scheme also present a range of further design options. Emissions trading schemes are most often associated with 'cap and trade' mechanisms, given their prevalence. However other emissions trading-based mechanisms such 'base-line and credit' levied at different points in the industry value chain are also worthy of consideration and evaluation.

Yours Sincerely,

David Markham

Head of Government Affairs

Phone: +613 8628 4541

Mobile: +61 419 504 778

Fax: +613 8628 0922

Email: David.Markham@TRUenergy.com.au