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Committee Secretary
House Standing Committee on Economics
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Clean Energy Amendment Bills

TRUenergy welcomes the opportunity to make a submission to the House Standing Committee on Economics' inquiry into the Clean Energy Amendment Bills.

TRUenergy is one of Australia's largest energy companies, providing gas and electricity supply to over 2.7 million household and business customers. TRUenergy owns and operates a multi-billion dollar portfolio of energy generation and storage facilities across Australia including coal, gas and wind assets. TRUenergy is committed to developing low and zero emission energy generation technologies across a range of clean energy initiatives.

TRUenergy supports a greenhouse policy framework that allows Australia to achieve its emission reductions objectives at least cost. From the perspective of an energy supplier, this means a scheme design that achieves environmental objectives at the lowest possible increase in the cost of energy for our customers. We therefore support:

- the removal of unnecessary restrictions that increase costs with no environmental gain;
- the ability to lower abatement costs by using credible international emission units; and
- efficient arrangements for the auction of domestic emissions units.

Given these principles, we support a number of measures in the amendments, including: the removal of the price floor; the removal of the minimum auction reserve price; and the related removal of the International Unit Surrender Charge. Removing these mechanisms lowers the cost of abatement and eliminates a complex, administratively costly and distortionary scheme feature. We appreciate the Government's consultation on these mechanisms and its consideration of energy industry feedback.

We also support the ability to import European Union allowance units. This provides the option for the energy industry to access lower cost abatement. However, in line with our view that there should be no

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unnecessary restrictions on the scheme, TRUenergy does not support the 50 per cent limit on the use of international units under the current legislation. This unnecessarily increases energy prices without additional environmental gain (as Australia's total net emissions are set by the scheme cap). Following the same logic, we do not support the proposed 12.5 per cent restriction on the use of eligible Kyoto units in the amendments. As Kyoto units may trade at lower prices than European allowances, this restriction may increase the cost of compliance – and therefore energy prices – for no environmental benefit. We also do not support the powers in the amendments to expand the scope of the Kyoto designated limit or prescribe additional designated limits.

In our view, the difficulties encountered in implementation of the price floor demonstrated the risks of imposing restrictions on market based mechanisms. Imposing volume restrictions risks similar unintended and unforeseen complications.

However, should the power to apply additional designated limits to international units be included, we consider the Kyoto unit limit should be set at the same value as the general limit on international units (which as noted above, we consider should be 100 per cent) to maximise the flexibility to source the lowest cost abatement.

Further, we support consultation with industry in the decision to apply any new limits and providing as much notice as possible to avoid prejudicing firms' legitimate compliance strategies. Although our preference is to remove the 12.5 per cent restriction entirely, we take some comfort that the amendment prevents it being tightened by regulations for at least five years.

We support the amendment's increasing of the limit on advance-auctioned carbon units in 2013-14. The increase from 15 million units to 40 million units for 2015-16 carbon units and to 20 million units for other advance auctions (where there is no carbon pollution cap number for that year) will increase the volume of permits available to support forward contracting in the energy industry.

However, despite this improvement, the proposed auction design will still deter participation and add costs. In particular, the Government's proposed auction settlement terms, which require payment for future vintage permits many years before they are required, will increase working capital costs for the energy industry. It will also deter participation in domestic auctions compared to international permits. For instance, Australian entities will be able to access normal commercial settlement terms for forward delivered permits from the European scheme, which will bias preferences to that market and away from domestic auctions.

We therefore consider that this set of amendments is an opportunity to materially improve auction design by inserting a provision in the legislation allowing for the settlement of future vintage auctions at the time of delivery. This will complement the increase in volumes of future vintage permits.

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Yours sincerely

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