

11 March 1998

Honourable I R Causley MP  
Chair  
House of Representatives Standing Committee  
on Environment, Recreation and the Arts  
Parliament House  
Canberra ACT 2600

Dear Mr Causley

***Inquiry into the Regulatory Arrangements for Trading in Greenhouse Gas Emissions***

The Electricity Supply Association of Australia Limited (ESAA) represents nationally the businesses involved in the generation, transmission, distribution and retailing of electricity in Australia. These businesses employ some 35,000 people.

ESAA intends to make a detailed submission to your Committee on greenhouse gas emissions trading. However, this submission will not be available until after 26 March when the issue will be discussed by the Association's Board at its meeting in Adelaide.

ESAA believes there will be advantage to the Committee in making a number of on-site inspections regarding greenhouse gas emissions management and will be pleased to facilitate such visits to its members' operations. The Association looks forward to having the opportunity to elaborate on its submission and to answer Committee members' questions at the public hearings.

In the meantime it offers these comments as an introduction to the Committee's consideration of the electricity-related aspects of emissions trading.

***Role of electricity***

Access to some of the world's cheapest and most reliable electricity is a key ingredient in Australia's standard of living while its generation in a carbon-intensive economy makes it a large source of carbon dioxide and other greenhouse gases.

Carbon dioxide emissions from power stations represent almost a quarter of this country's total greenhouse gas emissions.

Decisions taken on climate change policy, including those relating to taxation and to such measures as emissions trading, are important both to the viability of the electricity supply business and to the national standard of living through their impact on the cost of supply.

Electricity is a key factor in the cost-effective upgrading of Australian mineral resources, in the development of information and communication technology, in commerce, in manufacturing (where increasingly advanced electric technologies are vital in maintaining global competitiveness) and in residential services to homes. ESAA's members provide services to more than 900,000 businesses and more than 6.5 million residential customers.

It also needs to be recognised that electricity supply is an important contributor to management of one of Australia's most difficult environmental problems, and one of great concern to the community -- urban air pollution. With most power stations located outside major urban areas, more widespread use of electricity in cities such as Melbourne, Sydney and Brisbane, substituting for other fuels, can very significantly contribute to improving urban air quality.

Moreover, through its support for the research and commercial development of solar cells for rooftops and fuel cells as an alternative and low-pollution form of generation, ESAA's members are making a major contribution both to future electricity supply in Australia and to developing significant new export markets. Both solar cell and fuel cell technologies are expected to be in commercial use in the next decade. Further, with a view to the more distant future, ESAA members have supported Federal Government funding for the application of super-conductivity to transmission and distribution cables, as well as major contributions to Co-operative Research Centres.

Through major improvements in labour productivity, restructuring of utilities, privatisation and the development of a competitive market, electricity supply is playing a leading role in micro-economic reform and research by ESAA indicates that contestable business customers have obtained a substantial reduction in their electricity bills in the past 12-18 months. Sustained lower electricity prices will greatly improve business viability and job growth. Pursuit of considerably lower business input costs to drive international trading competitiveness has been a key ingredient of Federal Government policy throughout the 1990s and ESAA is strongly focussed on the need to protect the gains made in pursuing this goal from erosion by policies addressing other issues.

Finally, the Association and its members are equally focussed on taking a lead in environmental management. ESAA and its members have been prominent in support of the Greenhouse Challenge Program and electricity businesses have taken up strongly the Association's wide-ranging, high standard code of environmental practice, launched by the Federal Minister for Primary Industries and Energy in December.

### ***Emissions trading issues***

Following the outcome of the Kyoto summit on climate change, ESAA has found growing interest among its members in a domestic emission trading scheme, providing a range of complex issues can be resolved. As indicated above, the ESAA Board has not yet given formal consideration to the concept. Also, ESAA considers it important that aspects of the Government's November 1997 greenhouse response package, and in particular the mandated

elements affecting electricity supply, be fully understood and developed before in principle commitment to emissions trading concepts can be advanced.

Therefore, subject to further consideration by ESAA and its members, the Association raises the following matters for the initial information of the Committee:

- **Inclusiveness** -- an emissions trading scheme will need to include all greenhouse gases and emissions from all sectors in order to provide depth to trading and genuinely reduce the marginal cost of abatement. Focussing on energy related carbon dioxide emissions, or even more narrowly on stationary sources such as electricity generating plant, will fail to capture a wide range of more cost-effective abatement opportunities.
- **Emission caps** -- determining emission caps and permit periods will be a critical issue for energy supply businesses with a projected emissions growth of around 40 percent between 1990 and 2010 as a result of the large growth in energy use (electricity use is projected to increase by about 50 percent for example). Accommodating energy related emissions growth within the emission cap(s) will be vital for industry. It is currently unclear how the proposed Kyoto greenhouse gas emissions limit for Australia of +8 percent can be reconciled with energy-related emissions growth, effectiveness of existing and proposed (Government's November package) measures, and complex land management and sequestration issues.
- **Allocation of permits** -- a range of critical and sensitive economic issues will need to be assessed with respect to permit allocation. For example, auctioning permits, particularly if numbers are limited, will place a significant burden on industry with the potential of creating instant winners and losers. Even a modest permit price of \$10 per tonne of carbon dioxide would add \$1500 million to the cost of electricity supply. It will need to be clearly recognised that emissions trading imposes an impost on business, and in many ways, it is akin to a tax on business.
- **Duration of permits** -- reconciling the need for business certainty and the potential for changing emission caps will require a full analysis of the many complex issues involved in establishing permit periods. Periodic permit re-issue, even if free, could lead to significant business uncertainty including reduced flexibility for participants in meeting reductions. Issuing permits in perpetuity with conditions flexible enough to accommodate changing requirements over time could provide greater business certainty.
- **Carbon credit scheme** -- an effective carbon credit scheme, as part of an emissions trading scheme, will reduce the cost of meeting emissions targets by providing greater opportunities to offset emissions. Such a scheme should not be limited to carbon dioxide sequestering, but should be able to accommodate other measures such as end-use energy efficiency, international offsets, and green energy schemes. Again, a range of complex issues will need to be resolved in establishing a credible carbon credit scheme.
- **Existing and planned government initiatives** -- existing initiatives, such as the Greenhouse Challenge, commitment to cogeneration and green power schemes, will need to be examined in light of an emissions trading. More pertinently, the mandated/regulated elements of the Government's November 1997 greenhouse package, which have a profound effect on

electricity supply businesses, will need to be shaped to maximise the greenhouse gas abatement benefits of emissions trading at the lowest possible cost to industry.

- **Interfacing with an international emissions trading scheme** -- a domestic emissions trading scheme will need to be designed and implemented in a manner which will benefit Australia once international emissions trading becomes a reality. An inappropriate domestic emissions trading scheme could make Australia a significant net permit buyer and price taker in an international scheme, depriving business of investment opportunities which could in fact lock-in existing technologies, rather than advance them. Consideration will need to be given to businesses operating in Australia and internationally which can reduce the cost of abatement more effectively through activities on a global basis while benefiting Australia domestically.
- **Taxation reform and emissions trading** -- any proposal for a domestic emissions trading scheme will need to be assessed against proposals for tax reform. Taxation measures could impact significantly on the appropriateness and effectiveness of an emissions trading scheme.

ESAA looks forward to making a submission to the Inquiry and participating in hearings after its March Board meeting.

Yours sincerely

(signed)

Keith Orchison  
**Managing Director**