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International Power Australia

Submission to the House of Representatives Standing Committee on Primary Industries and Resources Inquiry into the Draft Off-shore Petroleum Amendment (Greenhouse Gas Storage) Bill

9 July 2008

Overview

International Power Australia (IPRA) welcomes the opportunity to comment on the Draft Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill. As Australia's largest privately owned electricity generating company, with major brown coal fired generating assets in the Latrobe Valley, IPRA has been at the forefront of trialling and developing brown coal based low emission technologies.

In this context, IPRA strongly supports the intent behind the Draft Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill to provide investment certainty, ensure public confidence and promote technology transfer, research and development in carbon capture and storage (CCS).

All of these will be critical to developing CCS as a viable long term solution to reducing carbon dioxide emissions from Australia's power generation sector - something that IPRA supports.

Moreover, although limited to offshore waters, the Bill is likely to provide a template for similar legislation by the states and territories for onshore storage. As such, the legislation takes on

wider national significance. However, IPRA is concerned with a number of critical areas within the Bill.

1. Privileged treatment for existing holders of petroleum rights;
2. Inferior title rights for CCS operators;
3. Lack of clarity over dispute resolution.

Given the close proximity of the Latrobe Valley and the off-shore storage sites in the Gippsland Basin, IPRA believes that CCS will be critical to the long term future of the Latrobe Valley's brown coal based electricity production in a carbon constrained world.

The legislation should seek to advance rather than hinder the ability to fully utilise CCS storage sites in the Gippsland Basin.

Notwithstanding the above however, the design of the emission trading scheme could have a profound impact on the use of brown coal for the production of electricity. Depending on the details of the emission trajectory and the pace at which the new emission charge is introduced, it could cause a retreat from brown coal being used as a main fuel source. Gas would be used as an alternate (albeit with finite supply in the South East).

IPRA Background

IPRA is Australia's largest private producer of electricity producing more than 22 TWh in 2007 or about 12 per cent of all electricity in the NEM. It has progressively developed its portfolio since 1996 from 1,200MW to circa 3,200MW (equity owned) of diverse fuel and technology generating capacity across Victoria, South Australia and Western Australia. It has actively developed 220MW of wind farm sites in Victoria since 2005 (contracts are soon to be awarded), and is considering participating in desalination schemes in both South Australia and Victoria¹.

This portfolio is complemented by the IPRA owned Simply Energy, an electricity and gas retail business which currently represents 7-10% of the Victorian retail market.

It should also be noted that IPRA led the development and construction of the 687km SEAgas pipeline from Victoria to Adelaide, and it continues to have a one third equity stake in the same today.

¹ IPR is the largest privately owned producer of desalinated water in the world (operations are predominately located in the Middle East)

IPRA operates the 1,600MW Hazelwood and 1,000MW Loy Yang B base-load power stations in the Latrobe Valley. Together they represent more than 40 per cent of Victoria's energy supply.

Since IPRA purchased Hazelwood Power Station in 1996, its emissions intensity has been reduced by 8 per cent which represents 10 million tonnes of CO₂ emissions saved (compared with SECV emission intensity). Over that time, \$400 million has been invested on plant efficiencies and other environmental initiatives. Fresh water consumption has also been reduced by over 45%.

IPRA is committed to building on the substantial improvements it has already made to its Latrobe Valley assets. For example, the \$370 million retrofit Hazelwood 2030 project (with \$80m of Commonwealth and Victorian State Government funding), includes the design and construction of a pilot carbon capture plant scheduled for completion late in 2008. Although the amount of CO₂ captured and sequestered (in the form of calcium carbonate) may appear to be modest at 16-25 tonnes per day, it will actually be one of the largest such facilities in the world.

IPRA's investments in the Latrobe Valley represent an important component of International Power plc's global portfolio of 30,807MW (18,935MW equity owned) International Power plc operates across 19 countries. As part of this, International Power plc is the world's fourth largest owner and operator of renewable energy with 1,081MW of wind farms in operation (with a further 99MW under construction).

Detailed Response

As background to the provision of comments on the Draft Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill 2008, IPRA would like to reiterate some of the comments made to the Victorian Government in relation to CCS.

- (a) CCS technologies are still in a development phase. Carbon capture remains a relatively proven technology; large-scale carbon storage is however largely unproven. Governments will be central to the development and facilitation of CCS.
- (b) A carbon price signal delivered by the national emissions trading scheme should drive long-term development of carbon abatement technologies. Renewable obligations are likely to distort this price signal.

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- (c) A CCS legislative and policy framework should be implemented at the Federal level.
 - (d) The most important factor determining demand for CCS is deployment of CCS technologies at both existing and new power stations. Post combustion capture technologies are being increasingly favoured for a number of reasons (the latest example is the British Government favouring such a scheme over pre-combustion capture).
 - (e) Governments (Federal and State) should be actively involved in developing common infrastructure such as helping secure pipeline easements, and initiating/completing environmental approvals processes. IPRA is prepared to take a leading role to develop this in Victoria.
 - (f) The timely provision of potential storage sites and capacities and associated data is required.

Specific comment on the Draft Bill

International Power Australia (IPRA) welcomes the opportunity to comment on the Draft Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill. As Australia's largest privately owned electricity generating company, with major brown coal fired generating assets in the Latrobe Valley, IPRA has been at the forefront of trialling and developing brown coal based low emissions technologies.

In this context, IPRA strongly supports the intent behind the Draft Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill to provide investment certainty, ensure public confidence and promote technology transfer, research and development in carbon capture and storage (CCS).

All of these will be critical to developing CCS as a viable long term solution to reducing carbon dioxide emissions from Australia's power generation sector - something that IPRA strongly supports.

Moreover, although limited to offshore waters, the Bill is likely to provide a template for similar legislation by the states and territories for onshore storage. As such, the legislation takes on wider national significance. However, IPRA is concerned with a number of critical areas within the Bill.

1. *Privileged treatment for existing holders of petroleum rights*

The Bill provides existing holders of petroleum rights privileged access to CCS resources. In particular, the veto powers over storage prospectors and potential injection licence holders, creates significant uncertainty about access to storage resources and for related investments. Even basic exploration activities, such as seismic surveys and making a well for injection and storage appraisals, are subject to such powers under the proposed legislation.

IPRA believes that such protections for existing petroleum operators are likely to discourage investment in carbon dioxide storage exploration and potential commercial injection and storage.

Further, there is a very real prospect that such treatment will lead to an effective quarantining of petroleum and exploration title acreage from CCS activities in the medium term, especially within the Gippsland Basin. IPRA notes that around 80 per cent of the Gippsland Basin is already subject to pre-existing exploration titles.

Given the importance of this area for CCS projects and the Latrobe Valley generation sector, serious consideration needs to be given to achieving a better balance of the rights of existing rights holders with the broader public interest need to develop viable CCS sites.

2. *Inferior title rights for CCS operators*

The carbon dioxide storage title rights may be less secure than petroleum title rights. From the perspective of providing a level playing field, the legislation should be modified to ensure that title rights for CCS operators have the same level of security as those enjoyed by petroleum title holders.

3. *Lack of clarity over dispute resolution.*

The Bill recognises the rights of petroleum production licence holders to inject and store carbon dioxide for the purposes of petroleum recovery. However, petroleum rights to inject and store do overlap with proposed greenhouse gas injection licence requirements and it is unclear how these overlaps will be resolved, particularly when non-petroleum licence holder are involved.

Conclusion

The Amendment Bill significantly advances regulatory certainty with respect to offshore greenhouse gas storage, particularly for new exploration areas where petroleum exploration and operation are given equal standing with carbon dioxide storage assessment and injection.

However, such standing is less secure for storage proponents in existing petroleum exploration and production areas where existing licence holders have extensive veto powers over storage prospectors. This is likely to impede investment in storage area exploration but also reduce investment in new low emission technologies.

The Latrobe Valley is the site of generators that provide about 25 per cent of the electricity generated in the National Electricity Market. Given the close proximity of the Latrobe Valley and the off-shore storage sites in the Gippsland Basin, CCS will be critical to the long term future of the Latrobe Valley's brown coal based electricity production in a carbon constrained world provided the design of the emissions trading scheme is conducive to its development.

The legislation should seek to advance rather than hinder the ability to fully utilise CCS storage sites in the Gippsland Basin.

Pender, Bill (REPS)

From: Gibbons, Patrick [Patrick.Gibbons@ipplc.com.au]

Sent: Wednesday, 9 July 2008 2:36 PM

To: Committee, PIR (REPS)

Subject: Amended Submission

Please find attached the amended International Power Australia submission to the Inquiry into the Draft Offshore Petroleum Amendment (Greenhouse Gas Storage) Bill.

Regards

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