8 April 2009

Email to: climate.sen@aph.gov.au

The Secretary
Senate Select Committee on Climate Change
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600 Australia

Dear Sir or Madam

Submission to the Inquiry into the policies relating to climate change

Cool nrg is pleased to provide a submission to the Senate Select Committee inquiry into policies relating to climate change.

The Cool nrg submission focuses on two aspects of the legislation:

1. The need for market driven responses to climate change
2. The treatment of offsets and State based domestic energy efficiency schemes in cap and trade scheme

1. The need for market driven responses to climate change

Cool nrg strongly support the needs for market driven responses to climate change that create a price incentive for reducing emissions.

Cool nrg is one of only two Australian companies delivering Clean Development Mechanism (CDM) projects in the developing world. And Cool nrg is the world leader in CDM's Program of Activates (PoA) approach.

Cool nrg supports the international linking of an Australian cap and trade scheme to the CDM as outlined in the current Carbon Pollution Reduction Scheme (CPRS) legislation.

2. The treatment of offsets and emissions reduction from State based domestic energy efficiency schemes

Cool nrg notes the omission in the CPRS legislation of demand side measures that can meaningfully contribute to Australia's national target.

This approach is counter to the key aim of climate change policy: lowest cost abatement.

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Much of this 'low hanging fruit' can be found in energy savings at home. Household energy efficiency that contributes to Australia's overall emission targets is critical to ensuring the costs of carbon reductions are kept low. It is also important in engaging householders, local councils and state Governments in mitigation efforts.

Government policy must seek to access this lowest cost abatement and empower people to take action that can contribute to meeting any national target.

The key issues in making these emission reductions count are ensuring additionality and avoiding double counting.

Voluntary action, offsets, 'green power' and household energy efficiency schemes are a broad church. But much of this market and its reductions are already verified and documented. An upfront accounting for these reductions would allow domestic reduction to contribute alongside supply side reductions.

Cool nrg's experience in energy efficiency schemes in the UK, EU, US and Australia provide an expert working knowledge about how this can be achieved.

The following information is drawn from Cool nrg's international experience and expertise.

The United Kingdom

Until 2008 the UK Government accounted for emissions at the household level. These emissions have helped meet the UK Kyoto target. The International Energy Agency estimates that domestic energy efficiency has contributed 17% of the overall Kyoto target.

The UK domestic energy efficiency scheme, the Energy Efficiency Commitment (EEC), sat alongside the country's EU Emission Trading Scheme (ETS) obligations. The power sector was obligated under EEC to deliver residential energy efficiency savings, and had a capped obligation under the EU ETS.

So the UK Department of Climate Change had projections of allocations based on the EU ETS obligations of the covered companies in the power sector. Demand side reductions were subtracted off these ETS obligations for each sector and company, based on modelling of what activities would occur at the household level, and what emissions would be saved. And because the power sector companies had defined obligations, there was no double counting of demand and supply savings.

So electricity demand reduction was already factored into the supply side cap for the power sector. The power sector underwrites delivery of the household savings because a shortfall would require the power sector to purchase additional permits under the ETS. This created an incentive for household savings.

The savings from the UK Energy Efficiency Commitment (EEC), now called the Carbon Emission Reduction Target (CERT), have been significant. EEC (2005-08) saved 185TWh; equivalent to the yearly electricity consumption of 14 million UK houses (53%).

But the UK accounting procedures have now changed for CERT. The power sector allocation is no longer based on a centrally set trajectory. So demand-side savings under CERT are no longer additional. Therefore household energy efficiency savings can make no direct contribution to the UK Kyoto target.

The United States

Two schemes in the US offer important lessons.

1. The Regional Clean Air Incentives Market (RECLAIM) has operated in California since 1994. The scheme is directed at reducing nitrogen oxides (NOx) and sulphur oxides (SOx) emissions through a cap and trade system.

The Nox/Sox system used a 'set aside' or reserve calculated from setting aside a number of emission reductions from the expected emissions in a given period. This reserve is subtracted from the total amount of allowances allocated to the energy sector and the overall emissions cap. Any remainder in the reserve is auctioned.

2. The Renewable Greenhouse Gas Initiative (RGGI) is a cap and trade scheme involving ten US states. RGGI provides for compliance flexibility through the use of emission offsets from projects outside the capped power sector.

Allowances from green power style offset programs can be retired in an amount equivalent to the avoided emissions resulting from the voluntary purchase of qualified renewable energy. The number of the credits reduced can be done by either forward estimates of deemed savings or the actual emissions from monitoring installed energy saving activities.

Importantly the ability to use offsets outside of the capped sector under RGGI is restricted to certain project categories. This safeguards against any additionality concerns and double counting issues because offset projects must prove they are achieving the cuts above business as usual emission levels. This requires conservative counterfactual assessment based on assumptions about energy and appliance use.

Importantly if the RGGI system is to be applied in Australia it requires a revision of the CPRS draft legislation that sets the targets in 5-year blocks so that the target can be revised yearly.

Voluntary Carbon Market Association (VCMA)

In making these comments about other domestic schemes, Cool nrg highlights the important work of the Voluntary Carbon Market Association (VCMA) and their Voluntary Domestic Abatement Scheme model in providing measures for accounting for offsets. Cool nrg recommends the work of the VCMA to the committee.

Accounting for Domestic Energy Efficiency cuts in Australia

There are three main state based energy efficiency schemes in Australia at present – in South Australia, Victoria and NSW. Most schemes are legislated until 2012 – or until such time as a national scheme is introduced.

These schemes place an obligation on energy companies of a certain size to deliver household energy efficiency savings. The same companies will have a cap on their emissions under the Government's emission trading plan – so the savings they make at the household level must be decoupled from any supply side savings.

The total aggregated emission cuts from these three state based schemes is ~6 million tons annually for the next three years. Added to the federal energy efficiency homes package for insulation and solar hot water systems (5 million tons saved annually for decade), the total for state and federal energy efficiency is around 10 million tons per year.

This is just under 2% of Australia's total net emissions for 2006. And importantly it is 'negative cost' abatement that saves householders money.

This abatement also saves the Government money because Australia may have to pay for international credits to reach its 2012 Kyoto target. Australia's allowed emissions over the Kyoto period have been reduced by 32.8 million tons. Any shortfall will need to be covered by purchasing international Kyoto units, Assigned Amount Units (AAUs). The Government may have to purchase over 30 million AAUs – priced at between €9-€15 – unless further emission cuts can be achieved domestically.

Cool nrg looks forwards to further engagement with the inquiry and would be happy to appear before the committee.

For further information please contact Dougal McInnes at 03 9387 2964 or dougal@coolnrg.com.

Yours sincerely

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