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**SOUTH AUSTRALIAN
WATER CORPORATION**

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Senate Select Committee on Climate Policy
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To the Senate Select Committee on Climate Policy

Re: Inquiry into the choice of emissions trading as the central policy to reduce Australia's carbon pollution. (This submission is not confidential)

Thank you for the opportunity to comment on the choice of emissions trading as the central policy to reduce Australia's carbon pollution.

SA Water has contributed in the past to various documents relating to the National Greenhouse and Energy Reporting System (NGERS), the Carbon Pollution Reduction Scheme (CPRS) and the expanded National Renewable Energy Target (NRET) and the Discussion Paper on a proposed National Carbon Offset Standard. SA Water welcomes the opportunity to contribute to this inquiry and recognises that the outcomes will be critical to our ability to respond effectively to a carbon price in goods and services, and our continued voluntary action.

In the 2008 calendar year, SA Water undertook significant voluntary actions to constrain our greenhouse gas emissions to within our Kyoto aligned emissions target of not more than 108% of 1990 emissions. Our voluntary actions included:

- The purchase of 72,000 MWh of accredited GreenPower (100%)
- Self generation and use of 13,000 MWh of biogas renewable energy
- The purchase of 25,000 accredited NGAC carbon offsets
- Continuation of SA Water's voluntary revegetation program of up to 125 hectares per year to establish future greenhouse benefits.
- Relocation of metropolitan offices and depots into SA Water's 6 Green Star accommodation
- Maintaining a range of energy efficiency programs and investigations.

Our voluntary commitments make us one of the largest voluntary market customers for low emission products, services and carbon offset products in South Australia.

SA Water is currently undertaking the development of the Adelaide Desalination Plant which is associated with a 'carbon-neutral' commitment by the South Australian Government. In line with our stakeholder expectations we plan to operate the desalination plant with 100%

accredited renewable energy in order to avoid potential Scope 2 greenhouse gas emissions as a major step towards achieving carbon neutrality.

We are disappointed that our approach is not catered for in the proposed Carbon Pollution Reduction Scheme or under the National Greenhouse and Energy Reporting System. Indeed there is a great deal of uncertainty in the future ability of individual businesses to contribute towards reducing National emissions under emissions trading; confusion over which voluntary mechanisms will continue; and frustration that a Government accepted definition of carbon neutrality has not yet been adopted for use in Australia's policies and programs.

The proposal to allow businesses to voluntarily surrender Australian Emissions Units (AEUs) as a voluntary offset actually contradicts the role of traditional tangible voluntary measures (such as GreenPower, improved efficiency, and revegetation) because the two approaches change the scarcity of permit-based AEUs in a way that effectively cancels each other out. When businesses and individuals voluntarily reduce their emissions fewer AEUs are required in the economy, resulting in a reduction in the market price of AEUs. Based on the information contained in the discussion paper on a National Carbon Offsets Standard, it is the lower market price of AEUs and enhanced capacity to reduce emissions which are the key determinants for the Government to assess that it is "increasingly feasible to set more ambitious emissions reduction targets". It is only traditional voluntary action, and not voluntary AEU retirement that can be regarded as improving Australia's capacity to adapt to improve the feasibility for the Government to reduce future scheme caps. Clarity on these matters is necessary for SA Water to make commitments, decisions and claims.

In terms of SA Water's exposure to carbon costs we anticipate that whilst some AEUs will be required to cover our direct liabilities resulting from fugitive emissions, the pass through costs in our electricity bills will be far greater. There are however, a number of potentially unfair financial risks to SA Water even where we use accredited renewable energy.

SA Water already prides itself on its efficiency achievements, yet the reality of increased energy needs for desalination and water recycling activities will cause substantial increases to our energy requirements. If SA Water cannot avoid the carbon price through selecting lower emission electricity products then the low carbon economy will be fundamentally flawed. SA Water therefore advocates the development of a Policy and market framework that would:

- Ensure that where SA Water uses accredited GreenPower or other low emissions electricity sources, our Scope 2 emissions are reduced; and
- Encourage the development of market guidelines for retail renewable energy reforms to include the price of renewable energy and the price of a firming up mechanism (that deals with the cost of managing intermittency), but excludes CPRS costs and costs relating to mandatory renewable energy targets.

Further detail on risks relating to our use of renewable energy is covered in previous submissions to the Department of Climate Change on the National Greenhouse and Energy Reporting System and the proposed National Carbon Offsets Standard.

We suggest that the proposed CPRS Bill should not be presented to Parliament before the Federal Government has completed the detail of its policies on complementary measures and voluntary mechanisms including the following:

- Completion of the National Renewable Energy Target Bill;
- A Policy and Bill that integrates mechanisms for voluntary renewable energy use and accounting with NGERs and the CPRS;
- Integration of Scope 3 voluntary greenhouse accounting with NGERs and OSCAR, that will assist businesses to become more aware of their exposure to carbon pass through costs;
- Completion of the National Carbon Offsets Standard;
- Adoption of a carbon neutrality definition for use in Australia's government accredited voluntary programs; and
- A standard for revegetation, forestry, and grassland management offsets for the voluntary Scope 2 and 3 markets or for those organisations that have valid reasons to opt out of the CPRS, or for in-business use.

SA Water is looking forward to its continuing role in tackling climate change by reducing emissions as we adapt to direct and indirect climate change impacts.

Yours sincerely



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ACTING CHIEF EXECUTIVE