



17 April 2009

Mr John Hawkins  
Committee Secretary  
Senate Select Committee on Climate Policy  
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Parliament House  
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Dear Sir

#### **ORIGIN ENERGY: SUBMISSION TO SENATE SELECT COMMITTEE ON CLIMATE POLICY**

Origin Energy Limited (Origin) welcomes the opportunity to respond to the Senate Select Committee on Climate Policy.

Origin is Australasia's leading integrated energy company focused on gas and oil exploration and production, power generation and energy retailing. We are a major investor in electricity generation infrastructure, with around \$2bn of investments in gas-fired generation projects due to be completed through 2009 and 2010.

We have permits in place to make broadly the same level of investment in base load and/or peaking power capacity over the coming years should we decide to do so. New power stations operate for 30-50 years, so these decisions will have an impact for decades on the generating mix in the National Electricity Market and, in turn, on Australia's emissions profile.

We would like to offer the following perspectives:

#### **1. Uncertainty over the form of carbon regulation and the timing of its introduction is leading to sub-optimal large-scale long-term investment decisions**

Uncertainty in the regulatory environment is a real issue impacting investors and electricity customers today. It is distorting decisions that have a long term impact on customers and on new investment in the electricity industry.

##### **(a) Increasingly difficult to get long-term electricity supply contracts**

Participants in the National Electricity Market are assuming that a form of carbon regulation will be introduced that will affect prices for electricity. But they don't know when, in what form, or to what degree. In that context, they are unwilling to commit to long term electricity supply contracts that might quickly turn out to be well outside the market price.

This is not a theoretical or minor phenomenon. Over the last year, liquidity in the market for long term electricity supply contracts has deteriorated substantially. Large industrial and commercial customers and electricity retailers are increasingly struggling to find

electricity suppliers who will commit to long term price arrangements. Instead they are buying shorter term contracts at higher and more volatile prices. The contract market is being affected on a day to day basis by rumours and by statements made by policy-makers about the CPRS.

This situation is to no-one's benefit. On average, in a more volatile market, prices for all consumers tend to be higher. Moreover, industrial and commercial customers unable to get long term contracts are less able to forecast their long term electricity costs, as are electricity retailers. And in the absence of clarity about long term revenues, electricity suppliers are less willing and less able to make investments in new capacity or maintenance.

#### (b) Uncertainty over fuel choice affects new investment decisions

With increasing overall demand for electricity in the National Electricity Market, and with a 3-5 year lead time for new plant to come online, the electricity market needs companies like Origin to keep investing in new electricity generation capacity.

When assessing potential new investments, a key question is which fuel to use. For baseload electricity generation, the choice in Australian conditions is coal or gas.

Investors like Origin observe that the economics of a new coal-fired station are under current conditions generally very attractive when compared to a new gas-fired baseload plant. But when we look at the global trend, evident in Australia, towards pricing carbon, a new coal-fired station looks risky in the longer-term, because of its higher emissions. This makes it difficult to justify a decision to build new baseload plant, whether gas or coal.

These fundamental issues flow from the broad uncertainty now in the market as to when and in what form carbon pricing will be introduced in Australia. Our view is that the market requires a decision from Parliament as to the form and timing of a scheme as early as possible to address this uncertainty. On those two issues, our views are as follows.

## **2. Origin strongly supports a cap and trade scheme for carbon emissions as the central plank in Australia's climate change policy framework**

We reiterate our continued support for a cap and trade scheme for carbon emissions. We believe it is the lowest cost, most flexible mechanism for addressing climate change on a large scale over a long timeframe.

We would note that following significant debate over many years, both the current Government and its predecessor reached the conclusion that a cap and trade scheme was the best way forward.

A cap and trade scheme is also the best way to link Australia's efforts into a global approach to this global challenge.

Cap and trade schemes are already in place in the form of the European Union Emissions Trading Scheme and the Regional Greenhouse Gas Initiative (in the north-eastern US). Proposed schemes in California, Japan and New Zealand all take the form of cap and trade scheme, and the proposal currently in front of the US House of Representatives Energy and Commerce Committee is a cap and trade scheme, as were the two previous Bills tabled in the House (the Warner-Liebermann and Lieberman-McCain Bills). When

addressing a global problem, alignment of global action is a very important pragmatic consideration for Australia.

We also note that many of the major concerns being voiced by different groups in the current Australian debate relate not to the choice of a cap and trade scheme but, instead, to the degree of ambition of the scheme (i.e., how strong the targets are), its coverage (i.e., who pays) and its date of commencement. These fundamental issues would arise under any type of scheme. Any decision to adopt an alternative scheme would not remove the need eventually to make tough choices on these issues.

We also note that policy makers under the current and previous government have invested years of work in devising a detailed cap and trade scheme and accompanying measures. Whatever scheme is introduced - including a carbon tax - detailed and difficult issues such as these would still need to be addressed and take significant time.

### **3. Origin believes that a specific and certain start date for the scheme is essential and supports the July 2010 commencement date being proposed**

Origin supports the Government's now long-declared intention to commence operation of its proposed CPRS in 2010. The longer we wait to address climate change, the more it will cost in the long term and the less flexibility Australia will have to transition to a lower-emissions economy when we do decide to start.

Our primary concern, however, relates to certainty. If it were to be decided that a 2011 or even a 2012 start date for the Government's proposed CPRS is Parliament's preferred option, then we would recommend that this be clearly and firmly locked in because of the need to create certainty to allow necessary long term investment to proceed.

### **Conclusion**

It appears to us to be generally accepted in Australia and overseas that some form of carbon pricing is inevitable as part of an international response to global warming designed to reduce greenhouse gas emissions. This will involve governments introducing policies to create the necessary carbon pricing signals.

Origin believes that the Government's proposed policy response based on a cap and trade scheme for carbon emissions is appropriate and will prove positive for business certainty - and, thus, for future investment and jobs.

Failure to act would prove negative for Australian households and businesses. Despite declining economic activity, the national electricity market experienced periods of record demand over the most recent summer. Ongoing investment in Australia's energy infrastructure is essential if future demand is to be met.

Yours faithfully



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