



25 March 2009

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

ORIGIN SUBMISSION: INQUIRY INTO EXPOSURE DRAFT OF THE LEGISLATION TO IMPLEMENT THE CARBON POLLUTION REDUCTION SCHEME

Origin Energy Limited (Origin) welcomes the opportunity to respond to the Senate Inquiry into the exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme (CPRS).

Origin is reviewing the draft legislation in detail and will make a fuller submission to the Department of Climate Change, due April 14 2009. This will include our views on the practical implementation issues associated with the legislation and our position on scheme governance. We made a very detailed submission in response to the CPRS Green Paper, of which we attach the Executive Summary.

In this submission to the Senate Standing Committee, we would like to take the opportunity to comment on two issues which have become the subject of significant current commentary: the choice of policy instrument and the timing of the scheme.

In particular, Origin is concerned at the significant and unnecessarily prolonged uncertainty that failure to pass the proposed legislation would likely create, and the resultant adverse impact on new investment.

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 energy infrastructure. Over the 18 months starting in January this year, we expect to open new gas-fired and renewable electricity generation plants worth more than \$2.0 billion. Each of these investments will have an immediate and long-lasting impact in reducing Australia's emissions, because each will generate electricity at a level of carbon intensity well below the current Australian average and will do so for decades.

Over and above the \$2.0 billion in current investment, we have permits in place to support further investments in baseload and peaking power capacity of a similar value.

The future pricing of carbon is a key factor affecting those decisions. Origin therefore has a very keen interest in the development of the CPRS.

1. 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, on the basis that it is the lowest cost, most flexible mechanism for addressing climate change on a large scale over a long timeframe, and the best way to link Australia's efforts into a global approach to this global challenge.

A number of alternative schemes have been proposed over the last few years to both the current and previous federal governments, including a carbon tax and a range of different types of emissions trading schemes. Each scheme has pros and cons which have been laid out at length in submissions to, and reports to and by government. We will not reiterate those arguments here. We do note however that the last two federal governments have reached the conclusion that a cap and trade scheme is the best way forward.

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 schemes, and President Obama's budget proposal currently sitting with the US Congress also assumes that a cap and trade scheme will be introduced in the US. When addressing a global problem, alignment of global action is an important pragmatic consideration for Australia.

Many (not all) 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 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. We note that these issues will arise under any type of scheme, and that a switch to a different type of scheme will ultimately get to the point we are now at, where tough choices have to be made about these issues.

We are concerned to ensure that a debate about choice of scheme design does not get used as a reason to defer tough decisions that will need to be made eventually.

The current government has invested significant time and resources into developing a sophisticated, comprehensive and detailed scheme design, which is reflected in the draft legislation. Similar effort - and similar time - would be required in relation to any alternative scheme design.

We therefore encourage Australia's legislative bodies to work on the detailed provisions of the scheme, rather than question whether it is the right one, and to work together to do so promptly.

2. Origin believes that a specific and certain start date for the scheme is essential and supports the June 2010 commencement date being proposed

Origin supports the government's now long-declared intention to commence operation in 2010. The longer we wait to address climate change, the more it will cost and the less flexibility Australia will have to introduce a scheme gradually over time when eventually we decide to act.

Our primary concern, however, relates to certainty. If it were to be decided that a 2011 or even a 2012 start date is Parliament's preferred option, then we would recommend that this be clearly and firmly locked in because of the priority placed on creating certainty for new investment.

Conclusion

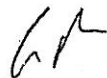
In the current investment environment, investors such as Origin know that some form of carbon pricing is inevitable, but not in what form, to what degree or at what date. This is an unsustainable situation and must be addressed promptly. Despite declining economic activity, the national electricity market experienced periods of record demand in January/February. Ongoing investment in Australia's energy infrastructure is essential.

In summary, Origin recommends that:

1. Parliament support the Government's CPRS legislation, commencing June 2010.
2. If Parliament decides to defer the start date of the CPRS scheme, Parliament clearly specify this new start date.

What must be avoided is a return to years of deliberation over which type of policy instrument should form the centrepiece of Australia's response to climate change. This risks stifling investment in the lower-carbon infrastructure required to power Australia's homes and businesses and, at the same time, reduce Australia's carbon footprint.

Yours faithfully



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