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

By email: economics.sen@aph.gov..au

ENA Response to the "Carbon Pollution Reduction Scheme" Exposure Draft Legislation

The Energy Networks Association (ENA) welcomes this opportunity to respond to the Senate Standing Committee on Economics inquiry into the exposure drafts of the legislation to implement the *Carbon Pollution Reduction Scheme(CPRS)*.

ENA is the peak national body for Australia's energy networks. ENA represents gas distribution and electricity network businesses on economic, technical and safety regulation and national energy policy issues.

Energy network businesses deliver electricity and gas to over 13 million customer connections across Australia through approximately 800,000 kilometres of electricity distribution lines. There are also 76,000 kilometres of gas distribution pipelines. These distribution networks are valued at more than $40 billion and each year energy network businesses undertake investment of more than $5 billion in distribution network operation, reinforcement, expansions and greenfields extensions. Electricity transmission network owners operate over 42,000 km of high voltage transmission lines, with a value of $10 billion and undertake $1.2 billion in investment each year.

ENA supports the Australian Government's proposal to implement a Carbon Pollution Reduction Schemes (CPRS) as it represents the most economically efficient path to achieve carbon reductions while recognising the Government's need to find the right balance between its priorities to effectively address the climate change challenge, and the need for maintaining a viable and internationally competitive economy. In this context ENA welcomes adjustment measures proposed under the scheme to assist Australian households and business.

Energy transmission and distribution networks, as the links between energy producers and final consumers have a relatively smaller direct role than other stakeholders in the emission of greenhouse gases. For energy network businesses, the main direct contribution to emissions to be covered by the CPRS legislation are fugitive gas emissions arising from methane leakage in gas distribution networks.

The ENA members engaged in the gas distribution sector may be held accountable for their greenhouse emissions as they are categorised as Scope 1 emissions under the CPRS legislation and therefore have the potential to create a CPRS emissions obligation depending on the estimated gas losses involved.

Issues

Impact of contracts on cost pass-through

As is intended by government, the cost of permits will be reflected in the eventual cost of goods and services to reflect the emissions intensiveness associated with those goods.

However, an anomaly may occur where there are long term contracts (for the supply of goods) that fail to make provision for the pass-through of imposts such as the cost of permits. While this is not expected to be a common occurrence, should such contracts exist, they are likely to be of significant value and therefore could materially impact the parties concerned. Unless the cost of carbon is passed all the way down the energy chain to the end consumer, the effectiveness of the carbon pollution reduction scheme will be undermined.

When GST legislation was introduced, consideration was given to the impact on existing contracts and whether transitional or special provisions were required for the implementation of GST. Similarly, consideration needs to be given in this case to existing contracts. ENA therefore recommends that the new legislation make specific provision enabling the pass-through of the cost of carbon permits in existing contracts, regardless of the provisions of existing contracts.

Pass through of Australian Emission Unit costs

Further, the Australian Government needs to be aware of the impact the CPRS may have on existing regulatory arrangements. The Australian Energy Market Commission's 1st Interim Report in its *Review Of Energy Market Frameworks In Light Of Climate Change* has observed that:

> While it may be simpler to identify the cost for gas retailers for purchasing carbon permits compared to electricity retailers, there are other related costs that may not be as easy to quantify. One cost may be the administrative costs of purchasing the permits. Another is the costs of "unaccounted for gas" in pipelines. It is unclear how pipeline operators will distinguish between gas losses and metering errors for the purposes of purchasing carbon permits to cover unaccounted for gas. The initial thinking is pipeline owners will pass these costs through to their customers, including retailers.

This indicates an expectation that gas distributors should be able to pass through costs associated with carbon permits. However, there is no specific provision for such action under existing access arrangements.

The mechanism for pass through should not place excessive risk on the network in terms of forecasting carbon costs. Networks are required to forecast costs for up to six years in advance as part of the regulated access arrangement process. It would be an unreasonable risk to have to forecast carbon costs over this period given the significant uncertainty around the pricing of carbon. The sums involved are not trivial with costs of $10m per year (at a carbon price of $25/tonne) being typical. An access arrangement can be reopened part way through the period but this is a difficult and costly process and it also means that everything is potentially open for review, not just the carbon price. A better option would be for an annual review and adjustment of the pass through of costs arising from the CPRS.

ENA has referred this matter to the Australian Energy Market Commission (AEMC) as part of its response to the AEMC *Review of energy markets in the light of climate change* but considers the issue of sufficient significance to raise it in this forum. ENA therefore seeks certainty from the Australian Government that an appropriate mechanism will be implemented to avoid distributors having to reopen their respective access arrangements.

Australian Financial Service Licences

ENA understands that under certain circumstances, entities may be required to obtain an Australian Financial Services (AFS) licence as required under the *Corporations Act 2001*. This provision requires businesses dealing in a financial product, such as trading in carbon permits, to hold an AFS licence. Such an administrative and financial burden must be avoided and indeed can be avoided if the scheme is appropriately structured. Otherwise this would be introducing unnecessary red tape and inefficiency

Separately, ENA wishes to inform you that it commissioned a consultancy to provide a comprehensive assessment of how network infrastructure will need to adapt to the expected climate induced changes. The report, by Parson Brinkerhoff, one of the world's leading planning, environment and infrastructure consultancy firms, is attached for your information.

Please contact ENA if you require clarification on any points in the submission

Yours sincerely

Andrew Blyth
Chief Executive