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Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia
economics.sen@aph.gov.au

Dear Sir/Madam,

“National Market Driven Energy Efficiency Target Bill 2007”

TRUenergy welcomes the opportunity to provide comment on the National Market Driven Energy Efficiency Target Bill 2007 (the Bill). Please contact Steve Wright (Manager, Sustainability Policy) in the first instance on 03 8628 1183 to discuss any aspect of this submission (attached).

Yours Sincerely,

[signed]

Mark Collette

Head of Sustainability

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Background on TRUenergy

TRUenergy is one of Australia's largest integrated energy businesses. With approximately 1.2 million customer accounts, TRUenergy supplies electricity and gas to residential and business customers across Victoria, South Australia, New South Wales, the ACT, Tasmania and Queensland.

TRUenergy's \$5 billion portfolio of assets includes:

- Yallourn power station and adjacent mine in the Latrobe Valley (1480MW)
- Hallett power station (180MW) in South Australia
- A master hedge agreement with Ecogen that delivers dispatch rights to electricity from Newport and Jeeralang power stations in Victoria (966MW)
- Iona gas storage facility near Port Campbell in Victoria, and
- A number of long term agreements with upstream gas suppliers and renewable energy suppliers (including hydro, wind and biomass).

TRUenergy is constructing Australia's most efficient gas-fired generation facility, near Wollongong, in NSW. When complete, the Tallawarra intermediate plant will emit 70% less emissions than traditional coal-fired power stations.

TRUenergy also has a 33 per cent interest in the SEAGas pipeline, a 685-kilometre natural gas transmission pipeline between Victoria and South Australia.

As a substantial investor, generator and retailer in the Australian energy sector, TRUenergy recognises its responsibility to take a lead role in the development and implementation of effective carbon reduction solutions. Based on the assumption that an effective national carbon trading scheme will be introduced, our Climate Change Strategy is our blueprint for achieving such reductions, committing us to emissions reductions across our portfolio by 60 per cent by 2050.

TRUenergy is a wholly-owned subsidiary of CLP Holdings, which is listed on the Hong Kong Stock Exchange and has a market capitalisation in the vicinity of A\$22 billion. CLP operates a vertically integrated electricity generation, transmission, distribution and retail business in Hong Kong, and invests in electricity businesses in Australia, India, China, Taiwan and Thailand.

Introduction

In TRUenergy's view a well designed national emissions trading scheme is the centerpiece of an effective, efficient climate change policy framework. Such a framework would deliver:

1. investor certainty ex ante – by creating an explicit, market-based price of carbon across all sectors of the economy to determine the new entrant mix of energy generation and abatement technologies;
2. investor certainty ex post – by adopting a compensation methodology that preserves the existing asset values of those most adversely affected by the introduction of a carbon charge;
3. incentives for research, development and demonstration – by allocating public funds to the development of zero and low emission technologies with the greatest potential to reduce emissions at least cost in the long run;
4. support for low and zero emission technologies – by implementing a national mechanism that facilitates commercialization and ultimately deployment in a timely manner; and
5. support for energy efficiency - implementing non-price based, national mechanisms that addresses specific market failures.

Specific comments on the Bill

Schedule 1 – Amendment of the Renewable Energy (Electricity) Act 2000

As energy efficiency is an important productivity measure as well as a low and cost effective greenhouse reduction action, these amendments propose to create a market for energy efficiency through 'commoditising' quality energy efficiency savings.

This is achieved through issuing trade-able certificates for quality and verifiable energy efficiency savings from activities which are above and additional to those activities currently required through legal or regulatory arrangements such as Minimum Energy Performance Standards. A demand for these certificates is created through the setting of a national energy efficiency target and requiring certain purchasers of electricity (called liable entities) to surrender a specified number of certificates. The definition of liable parties is the same as defined through the Renewable Energy (Electricity) Act.

Emissions trading as an energy efficiency policy measure

It is TRUenergy's strong contention that well designed national emissions trading scheme (ETS) is the centerpiece of an effective, efficient climate change policy framework, and that the incentives provided by an ETS stimulate greater levels of cost-effective energy efficiency in the economy. The business case (payback period) on all energy efficiency investment projects/proposals, by definition, improves with an increase in the price of energy, and the price of energy, by definition, increases with a cost of carbon.

Additional energy efficiency policy measures

As referred in the 5th part of the climate change framework above, TRUenergy supports a national energy efficiency strategy and associated policy mechanism (in addition to ETS) to achieve greater levels of cost-effective energy efficiency. However, it is critically important to economic efficiency that additional energy efficiency policy measures be reviewed and evaluated according to the following criteria.

1. Do they target specific market failure, not already targeted by ETS (negative carbon externality), related to information failures (such as split incentives etc)?
2. Are they complementary to ETS and other government policies and therefore avoid distorting outcomes under otherwise efficient policy tools?
3. Are they broad in their coverage across jurisdictions, sectors, products etc (as far as practicable)?
4. Are they administratively simple and effective as far as the policy mechanism designed to achieve the policy outcome, is concerned?

Current policies and processes relating to additional energy efficiency measures

Numerous energy efficiency measures exist or are being pursued, in addition to the one contained in this Bill, via various Commonwealth and jurisdiction policy processes:

- Victorian Energy Efficiency Target.
- South Australian Residential Energy Efficiency Scheme.
- NSW Greenhouse Gas Abatement Scheme (DSA component).
- COAG National Framework for Energy Efficiency.
- Commonwealth Greenhouse Friendly Program.
- Commonwealth Energy Efficiency Opportunities Act.
- Queensland Smart Energy Savings Program.
- COAG sub-groups established for considering a consolidated national approach to energy efficiency measures.
- Strategic Review of Climate Change Policies (including energy efficiency policies) established by the Hon Lindsay Tanner, Minister for Finance and Deregulation and Senator the Hon Penny Wong.

Moreover, private bodies, such as the Energy Retailers Association of Australia and the Climate Institute have commissioned independent studies into various energy efficiency policy options.

A comprehensive approach to energy efficiency policy design is required

In TRUenergy's view, it is both premature and inappropriate to consider the amendments contained in the Bill because the Bill does not constitute a comprehensive review and rational evaluation of all energy efficiency measures and policy processes, currently underway. Energy efficiency policy is 'part and parcel' of climate change policy and it is critical to achieving the policy outcomes that it be deliberated in this broader context.