

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

24 April 2008

Dear Sir/Madam

Inquiry into the Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008

Thank you for the opportunity to provide comment to the Senate Economics Committee Inquiry into the Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008.

In the attachment to this letter ExxonMobil Australia has provided commentary that focuses on the compatibility of establishing a mandatory renewable energy target in conjunction with an emissions trading scheme (ETS) - as is being proposed by the Australian Government.

Our comments and observations are based on the econometric modelling work commissioned by APPEA (Australian Petroleum Production & Exploration Association) and undertaken by Access Economics and CRA. The conclusions from this work are also supported by recent statements by the Productivity Commission which we have cited as well.

If you have any questions about our submission please feel free to make contact with me on 03 9270 3443.

Sincerely

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ExxonMobil Australia

Inquiry into the Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008

Submission by ExxonMobil Australia Pty Ltd

About ExxonMobil

ExxonMobil Australia and its subsidiaries (ExxonMobil) has had a significant role in the development of Australia's oil and gas resources and has a business history in this country stretching back more than 110 years.

ExxonMobil is Australia's largest integrated petroleum company. Our activities cover exploration and production of oil and gas, petroleum refining and marketing of fuels (including natural gas), lubricants, bitumen and chemical products.

ExxonMobil is a substantial investor in the Australian economy and a major contributor to the wealth of the nation. Annually ExxonMobil pays around A\$800 million in taxes to local, State and Federal Governments. Our cumulative investment in Australia exceeds A\$13 billion and we provide direct employment for around 1700 people and indirect employment for many thousands more.

Introduction

ExxonMobil recommends policy makers ensure existing and proposed policy settings are consistent with the future development of an ETS. Currently there is an array of energy and fiscal policies at the state and federal level that would undermine the efficacy of any carbon price signal and are a dead weight loss on the Australian economy.

In particular we have identified several areas for specific review / rationalisation but for the purpose of this inquiry we have restricted our comments to the compatibility of a mandatory renewable energy target with an Australian ETS.

Mandatory Renewable Energy Target

Government setting a mandated target for any particular source of energy is inconsistent with the underlying principle of an ETS – which is to let market mechanisms set the price for carbon emissions and thereby determine the appropriate energy mix for the carbon constrained economy. By extension of this point any mandated target is a distortion in the market and as such counterproductive to the efficacy of an ETS.

In this context APPEA (the national upstream oil and gas association) engaged Access Economics and CRA to model and report on the efficiency implications of establishing a 20 per cent mandatory renewable energy target (MRET) in conjunction with an ETS as proposed by the current government. What the analysis showed is that the combination of both policy instruments results in less efficient outcomes than just the implementation of an ETS.

In summary to reach an emissions abatement target of 67 Mt CO₂e in 2020, the modelling shows that the combined ETS + 20 per cent renewable energy target policy:

- costs Australia \$1.8 billion more in 2020 than a pure ETS policy in terms of economic welfare (GNP) losses;
- costs Australia \$1.5 billion more in 2020 than the ETS output (GDP) losses;
- results in the loss of 3 600 full time equivalent jobs (FTE) in 2020;
- causes substantial switching away from gas fired generation compared with an ETS in the order of 12.6 TWh per year by 2020;
- results in electricity prices rising by 6 per cent more than would be the case than under an ETS alone – the price rises 24 per cent under the combined policy approach, and by 18 per cent under an ETS that delivers an equivalent emissions abatement.

A mandated renewable energy target is less efficient at achieving a given environmental outcome because it forces higher cost renewable energy into the electricity generation mix at the expense of exploiting lower cost emissions abatement opportunities elsewhere in the economy such as gas fired power generation. Contrary to the popularly held belief that such mandated targets generate jobs, the overall effect on the economy is the generation of less jobs than otherwise would have occurred and a loss of output in the economy as a whole as compared to the outcome with a well designed emissions trading scheme.

The Productivity Commission has reached a similar finding stating that an MRET operating in conjunction with emissions trading "would be unlikely to achieve extra abatement, it would constrain the choice of abatement options (which could potentially cost billions of dollars) and reduce the incentive to use other new low-emission technologies".

Summary

- ExxonMobil recommends policy makers review existing policy settings when considering the development of a comprehensive climate change policy.
- Modelling by Access Economics and CRA concludes that a mandated renewable energy target is less efficient at achieving a given environmental outcome because it forces higher cost renewable energy into the electricity generation mix at the expense of exploiting lower cost emissions abatement opportunities elsewhere in the economy.
- The Productivity Commission has also concluded that an MRET operating in conjunction with emissions trading would be unlikely to achieve extra abatement, it would constrain the choice of abatement options (which could potentially cost billions of dollars) and reduce the incentive use other new low-emission technologies.