QUEENSLAND
resources
COUNCIL

Working together for a **shared future**

31 July 2009

Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

(via email to economics.sen@aph.gov.au)

Re: Senate Standing Committee on Economics Inquiry into *Renewable Energy (Electricity) Amendment Bill 2009* and a related bill

The QRC welcomes the opportunity to provide comment on the legislative provisions of this reform.

We wish to comment specifically on the:

- policy merit of a mandated target on renewable energy generation in light of ETS developments
- the potential for further distortions as state jurisdictions seek to capture a commensurate share of the 'renewable pie'
- the level of assistance to RATE industries
- and the eligibility of waste gas from coal mining (methane) under the scheme.

Background

The Queensland Resources Council (QRC) is a non-government organisation representing companies that have an interest in exploration, mining, minerals processing, gas and energy production. It is the resource industry's key policy-making body in Queensland, working with all levels of Government, interest groups and the community.

Given the Queensland resource sector is largely a price taker in global markets, and because of its large reliance on reliable and inexpensive energy as a source of comparative advantage, climate change policies – specifically, the proposed ETS and the RET, are substantive reforms that will have a significant impact on costs and international competitiveness.

Policy merit of a mandated target on renewable energy generation in light of ETS developments

At least at a theoretical level, a suitably designed ETS is the most appropriate means of using the discovery powers of markets to identify and implement least cost opportunities to reduce greenhouse gas emissions.

This position is supported by the recent findings of the Productivity Commission and Wilkins that conclude that renewable electricity subsidies should only be contemplated if it can be conclusively demonstrated that broadbased market measures – such as an ETS – will fail to achieve their objectives.

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 E info@qrc.org.au

www.qrc.org.au

With the ETS yet to start, it is of concern that Australian Government's wish to accelerate renewable energy technologies and their adoption (COAG's Energy Communique of 30 April 2009) via an expanded MRET before the market in response to price signals has had an opportunity to determine the scheduling of the emission abatement options based on their cost effectiveness and quantum potential.

A further compounding issue is that industry does not yet believe we have a 'suitably designed ETS' – meaning the industry will incur significant RET related costs as well as higher than necessary ETS related costs. An imperative therefore exists to tread carefully, and to continue to engage industry on the design of both schemes.

In comparison to the existing EU scheme, and the proposed US scheme (Waxman-Markey), the proposed Australian ETS is very aggressive and will introduce significant costs on resource companies at a time when global competitors are unlikely to face comparable costs in the foreseeable future.

Whilst some cost increases are needed to drive changes in business and consumer behaviour, ETS costs should not be so high that emissions reductions are caused primarily by lowered levels of economic activity (for example, shutdowns due to limited earnings). Instead, the ETS should be designed so that emitting firms are incentivised to introduce new technologies and more efficient production methods for example, whilst providing a necessary level of assistance to ensure emissions and energy intensive firms remain viable until the rest of the world comes on board. Whilst Government has acknowledged the vulnerability of trade exposed firms and has proposed a number of transitional assistance measures, detailed analysis demonstrates that the level of emissions intensive trade exposed assistance proposed will be largely ineffective in ensuring a smooth and measured transition.

Queensland is particularly susceptible with separate reports by Federal Treasury and Access Economics for the Council for the Australian Federation Secretariat (May 2009) concluding that Queensland is the most vulnerable to the impacts of rising energy and emission costs of all Australian jurisdictions with the state set to lose 28,000 jobs (net of 'green jobs' created) by 2020 assuming a BAU versus CPRS -5 scenario comparison.

Potential for further distortions as state jurisdictions seek to capture a commensurate share of the 'renewable pie'

Through its recently released renewable energy plan, the Queensland State Government will attempt to achieve a commensurate share of the expanded renewable energy pie by 2020. Specifically, the Queensland Government will seek the generation of 9,000 gigawatt hours of Queensland based renewable energy by 2020 (or 20 per cent of the total nation-wide target) by a variety of measures. The QRC is concerned if further regulations were introduced at the state level that further distorts the ability of the market to find least cost renewable options.

The eligibility of waste gas from coal mining (methane) under the scheme

Owner/operators of Coal Seam Methane power stations rely on revenue from the NSW Greenhouse Gas Abatement Scheme (GGAS) to stay commercially viable. The Federal Government has proposed however that GGAS will cease upon introduction of the CPRS. At this stage, no transitional arrangements have been proposed in the CPRS Bill, meaning:

- The operating cash flow of operators will be reduced which may force closure of the power stations.
- If the power stations close, the impact on the company supplying the methane would be significant - lost revenue from gas sales and additional CPRS permit costs.
- Closure of the power stations would also be worse for the environment as methane would be released into the atmosphere and will no longer displace coal for electricity generation. Existing projects are currently abating over 7 million tonnes CO_2 equivalent greenhouse gas emissions each year in Australia. This abatement could be expanded significantly with appropriate policy settings that encourage the sector's growth.

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 E info@qrc.org.au
www.qrc.org.au

- Gas would be wasted by being released to the atmosphere rather than put to the beneficial use of electricity generation.
- Job losses in a green industry.

The Federal Government is encouraging the New South Wales Government to terminate GGAS upon commencement of the CPRS to avoid a multiplicity of schemes. The White Paper states that although the NSW Government is responsible for transitional arrangements, if an agreement on assistance cannot be made, the Federal Government will consider providing some limited assistance for the benefit of GGAS participants.

It is incongruous that Government should choose to penalise early movers. Penalising early movers in carbon abatement will send the wrong signal to potential debt and equity investors in the green energy and carbon abatement technology sectors - decreasing the likelihood of funds being made available for the essential future development of abatement technologies. The CPRS should be designed to encourage and support the expansion of commercially successful carbon abatement technologies critical to lowering emissions.

A solution to this issue would be to support the inclusion of waste coal mine gas (methane) under the RET – that is, include waste coal mine gas as an eligible renewable energy source in Section 17(1) and delete the reference in Section 17(2) to waste products from fossil fuels not being an eligible renewable energy source. These amendments would allow these projects to generate tradeable certificates and hence income to stay economically viable.

There is international precedent to developed countries including waste coal mine gas generation in renewable energy incentive schemes. Germany, France and the US have recognised the important environmental benefits of using waste coal mine gas generation in their renewable incentive schemes. The Kyoto Protocol also recognises the carbon abatement of waste coal mine gas generation projects.

The level of assistance to RATE industries

The RET represents an additional cost for industries who are energy intensive. Whilst supportive of the proposal to provide exemption from liability under the RET scheme for all activities eligible for assistance as EITE activities under the CPRS, the QRC believes that this exemption should be a full not partial exemption that covers all MRET and RET related costs. In this context, the QRC strongly supports the submissions of the Australian Aluminium Council and Rio Tinto to this committee.

If there are any further enquiries in relation to this submission please feel free to contact David Rynne, Chief Economist, on (07) 3316 2522.

Yours sincerely

Michael Roche

Michael Roche
Chief Executive

ABN 59 050 486 952
Level 13 133 Mary St Brisbane Queensland 4000
T 07 3295 9560 F 07 3295 9570 E info@qrc.org.au

www.qrc.org.au