22 July 2009

Submission to the Senate Economics Legislation Committee Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill

Dear Sir/Madam

Please find attached the Bureau of Steel Manufacturers of Australia (BOSMA) submission in respect of the Senate Economics Legislation Committee Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill. BOSMA has prepared this submission on behalf of Australia's leading iron and steel manufacturers, BlueScope Steel Limited and OneSteel Limited.

For further information or clarification of this submission, please contact David Jenkins, Manager Government Relations (BlueScope Steel) or Leo Selleck, Executive General Manager Technology, Safety and Services (OneSteel).

Regards

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BlueScope Steel Limited (**BlueScope**) and OneSteel Limited (**OneSteel**) welcome the opportunity to comment on the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill (RET).

Overview of Submission

(a) Assuming the passage of the RET legislation through the Senate, both BlueScope and OneSteel expect to be eligible for the partial exemption as proposed in the draft RET legislation. This exemption must provide the Emissions-Intensive, Trade-Exposed (EITE) activities within the Steel Industry with the maximum level of shielding from electricity price increases directly related to the expanded RET.

In order to achieve this outcome, we believe the Government must 'decouple' the partial exemption for EITE activities under the RET from the commencement of the Carbon Pollution Reduction Scheme. That is, EITE activities should receive the partial exemption as soon as the RET commences, regardless of when (or whether) the CPRS legislation is passed by the Parliament.

(b) The RET should include as eligible sources the use of industrial by-product gases and waste heat streams (**Industrial Waste Gases**) to generate electricity. The proposed design of the RET creates an additional cost to major industrial facilities, but provides no incentive to utilise Industrial Waste Gases to generate electricity. Inclusion of Industrial Waste Gases would contribute to the renewable target by generating electricity from waste products and by-products and is consistent with the inclusion of other forms of waste gases as eligible sources under RET.

1. Steel Industry Overview

The Australian iron and steel sector is a fundamental building block for many activities in the Australian economy, providing a key material for construction, infrastructure, resource developments and other manufacturing, including the automotive industry. The industry also plays a major role in recycling steel.

The steel industry is an important segment of the Australian economy. Narrowly defined (as per ANZSIC code 2711), in 2005/06 the Australian steel industry employed approximately 24,000 people, paid wages of $1.5 billion and had an annual turnover of approximately $13 billion. The Australian iron and steel industry exported in excess of $2.3 billion of steel products in FY2008, and the industry faces significant competition in both domestic and export markets.

BOSMA members operate significant energy and greenhouse gas intensive facilities. These include integrated steelworks at Port Kembla (NSW) and Whyalla (SA), and scrap steel based Electric Arc Furnace steelmaking facilities in Sydney (Rooty Hill), Melbourne (Laverton) and Newcastle (Waratah). The industry is highly vertically integrated and these facilities in turn feed multiple downstream steel processing and distribution sites.

The industry has a carbon footprint of around 17 MT of CO2-e (Scope 1 and Scope 2 from Australian operations only) and an energy consumption of around 174PJ (including purchased electricity).

BOSMA members are contributing to both the reduction of greenhouse gases and improvements in energy efficiency, with several of the larger sites participating in both national and state energy efficiency programs, including The National Energy Efficiency Opportunities (EEO) program, the NSW Energy Saving Action Plan (ESAP) program, the Greenhouse Challenge Plus Program (this program has subsequently ceased as of 30 June 2009), and the Victorian Environment Resource Efficiency Plans (EREP) covering energy and water reduction plans.

BlueScope is a Benchmark participant in the NSW Greenhouse Gas Abatement Scheme (GGAS) (managing our own liability), and has created a significant number of NGACs and/or LUACs from Port Kembla. Electricity generation projects in NSW, which use Industrial Waste Gases as a fuel source, are eligible projects for the creation of abatement certificates under the GGAS scheme. Similarly, OneSteel is also a Benchmark participant but has chosen to use a third party to manage its liability.

2. Decoupling the RET from the CPRS

The Renewable Energy (Electricity) Amendment Bill 2009 allows for a partial exemption from the subsequent electricity price increase for purchases by EITE defined activities. At present, this partial exemption is tied directly to the CPRS legislation and in particular to the criteria defining an EITE activity (refer to Subsection 5(1) Insert: ***emissions-intensive trade-exposed assistance program*** has the same meaning as in the Carbon Pollution Reduction Scheme Act 2009[1]).

BOSMA submits that the RET legislation, and more specifically the partial exemption criteria for EITE industry, must be decoupled from the proposed CPRS legislation. Assuming the passage of the RET legislation through the Senate, both BlueScope and OneSteel would expect to be eligible for the partial exemption as prescribed in the RET, irrespective of the progress of the CPRS legislation.

EITE Activity definition discussions with the Government (under the proposed CPRS) are ongoing and the final EITE activity definitions for the Steel Industry are yet to be determined. The detail of the Integrated Iron and Steel Manufacturing and Electric Arc Furnace Steelmaking final EITE activity definitions will have a significant impact on the level of compensation under the CPRS and subsequently the scope of the partial exemption under the RET.

BOSMA continues to recommend that Hot Rolling of crude steel to produce Hot-Rolled steel products must be included in both the Integrated and EAF Steelmaking EITE activity definitions and as such be eligible for the maximum rate of assistance under the CPRS and the expanded RET. Hot Rolling in the Steel Industry is a significant consumer of electricity and an integrated part of the value chain, from which domestic products face import competition.

Failure to include Hot Rolling in the boundary of the proposed activity definitions, and provide EITE assistance under both the CPRS and the RET, would be inconsistent with

[1] Renewable Energy (Electricity) Amendment Bill 2009

international schemes, significantly and adversely affect our ability to compete with domestic import competition and ultimately result in an inferior environmental outcome.

3. Eligible Sources - Cogeneration using indigenous gases

Cogeneration is a power generation method that uses energy to provide two useful outputs – electricity and steam.

BlueScope has invested in the order of $80 million in studying the feasibility of constructing and operating a new cogeneration plant at its Port Kembla Steelworks. As a result of the economic downturn and continuing uncertainty regarding the cumulative cost of the proposed Carbon Pollution Reduction Scheme, the project is currently on hold. OneSteel's Whyalla steelworks has also studied an upgrade to its power generation equipment.

In the proposed BlueScope cogeneration facility, the fuel source would be predominantly by-product gases produced as a result of steelmaking activities at the Steelworks. In the absence of the proposed cogeneration facility, significant quantities of these gases are flared to atmosphere. Therefore, installation of the proposed cogeneration plant would have represented a clean solution to the challenge of achieving sustainable energy generation in the future.

This $1 billion plus project would result in the net offset in emissions of over 800,000 tonnes of carbon dioxide equivalent per annum, and would be one of the largest greenhouse gas reduction projects in Australia.

The Steelworks Cogeneration Plant (SCP) would have consisted of a number of new boilers and a Steam Turbo-generator (STG). The boilers would produce steam fuelled using a mixture of by-product gases from the Steelworks and natural gas for both process use and generation of electricity. The anticipated size of the STG is 225 MW and electricity produced by the SCP would be partly supplied to the Steelworks with surplus electricity exported to the grid.

While the SCP project is currently on hold, the ability of the SCP plant to create certificates under RET would directly affect the financial viability of the proposed project and BlueScope Steel's ability in the future to proceed with the investment.

The current MRET recognises fuels from certain wastes as an eligible source but does not include Industrial Waste Gases (any combustible fuels or sensible heat or pressure recovery used to generate electricity from an industrial process) as an *eligible renewable energy source,* and explicitly excludes the use of materials or waste products derived from fossil fuels. This is despite the fact that the MRET does allow a range of other sources that are arguably not continuously renewable according to a strict definition of renewable energy, such as landfill gas. Consequently, the proposed SCP and other projects that use Industrial Waste Gases for electricity generation are unable to create RECs under the current MRET.

The draft legislation for the Expanded National Renewable Energy Target Scheme released by the government indicates that the eligibility criteria for the new target will remain the same as the current MRET.

This contrasts with eligibility under the NSW Greenhouse GAS Abatement Scheme (GGAS). Electricity generation projects in NSW that use Industrial Waste Gases as a fuel source are eligible projects for the creation of abatement certificates under GGAS. The SCP will be an eligible project for the purposes of GGAS as evidenced by IPART accreditation of the SCP Project as an Abatement Certificate Provider on 17 September 2008 under Part 8A of the Electricity Supply Act 1995. Accreditation Numbers for the project being:

- Steelworks Generation Project – Generation Rule: GHGR00281B; and
- Steelworks Generation Project – Demand Side Abatement Rule: GHGR00281C

BlueScope's ability to create NGACs and the longevity of GGAS has a significant influence on the commercial viability of the SCP.

However, the NSW Government proposes to phase out GGAS upon the introduction of the CPRS by the Commonwealth Government. This will mean that BlueScope will not be able to create and sell abatement certificates under GGAS once the CPRS commences.

If the steel industry, and in this case BlueScope, is not able to take a direct benefit in place of NGACs as a result of either: (i) the termination of the GGAS (subject to the application of any relevant transitional arrangements for the commencement of the CPRS); or (ii) equivalent mechanisms, whether under the CPRS, the RET or a replacement energy efficiency incentive; then significant commercial drivers to undertake the SCP will be lost.

BOSMA submits that utilised Industrial Waste Gases should be included as an *eligible renewable energy source* for the purposes of the RET.

This could be achieved by amending the relevant legislation to include rules of eligibility that recognise the use of Industrial Waste Gases as an eligible source, such that the SCP and other projects that utilise Industrial Waste Gases, which may otherwise be released to the atmosphere, are eligible to create RECs under the Act.

The inclusion of Industrial Waste Gases as an eligible source is, in our view, consistent with the present inclusion of other waste gases and by-products as eligible sources under MRET and the proposed RET, such as wood waste, agricultural waste, food processing waste, bagasse, landfill gas and sewage gas.

Proponents of projects that are currently eligible to create abatement certificates under GGAS but which do not currently meet the definition of eligible renewable sources under MRET, would then have an ongoing incentive to develop such projects, thereby contributing to the policy objective of expanding the production of renewable energy in Australia.