



**SUBMISSION TO THE ISSUES PAPER ON
FINANCIAL SERVICES FOR MANAGING RISK:
CLIMATE CHANGE AND CARBON TRADING FOR
THE GARNAUT CLIMATE CHANGE REVIEW.**

21 February 2007



energy
greenhouse
solutions



Energetics Pty Ltd

CONTACT DETAILS

SYDNEY

PO Box 294
North Sydney NSW 2059
Telephone: +61 2 9929 3911
Facsimile: +61 2 9929 3922

MELBOURNE

PO Box 652, CSW
Melbourne VIC 8007
Telephone: +61 3 9602 5511
Facsimile: +61 3 9602 5599

CANBERRA

PO Box 5119
Braddon ACT 2612
Telephone: + 61 2 6257 9864
Facsimile: + 61 2 6247 9841

PERTH

45 Ventnor Avenue
West Perth WA 6005
Telephone: +61 8 9389 4407
Facsimile: +61 8 9389 4400

ADELAIDE

GPO Box 1466
Adelaide SA 5000
Telephone: +61 8 8272 2170
Facsimile: +61 8 8263 1457

BRISBANE

PO Box 1254
Fortitude Valley QLD 4006
Telephone: +61 7 3023 5049
Facsimile: +61 7 3023 4000

NEWCASTLE

Telephone: +61 2 4963 1782
Facsimile: +61 2 4963 1473

WEB: www.energetics.com.au
E-MAIL: info@energetics.com.au

Prepared by
Cheryl Bowler

Principal Consultant

Reviewed by
Jody Asquith

Energy Consultant

Approved by
Tony Cooper

Managing Director

Energetics thanks the Garnaut Climate Change Review for the opportunity to comment on the *Issues Paper on Financial Services for Managing Risk: Climate Change and Carbon Trading*.

1. Introduction

Energetics works with some of Australia's largest energy producers and has advised on energy efficiency measures and sustainability planning since 1984.

Energetics is Australia's leading integrated energy, greenhouse and sustainable solutions provider committed to the development and implementation of world-class business solutions.

Since its inception, Energetics has built a reputation as one of the world's leading innovators in sustainability practices. Over the past two decades, Energetics has grown from a domestic consulting business offering energy audits, to a firmly established company, providing a fully integrated range of sustainability services and products for a wide range of clients in the manufacturing, commercial, mining/minerals, government, energy and water utility sectors.

Energetics endorses, as a minimum, policy development that seeks reductions in national greenhouse gas (GHG) emissions to 60% of 1990 levels by the middle of the 21st century. We recognise the critical role that emissions trading must play to achieve this goal.

As many of Energetics' clients are also Australia's largest energy consumers and greenhouse emitters, Energetics is well positioned to respond to proposed approaches, and issues pertaining to, an Australian Emissions Trading Scheme (AETS). Energetics thanks the Garnaut Climate Change Review for the opportunity to comment on the *Issues Paper on Financial Services for Managing Risk: Climate Change and Carbon Trading*.

2. Issues Paper Feedback

Energetics has the following responses to the questions asked in the Issues Paper on Financial Services for Managing Risk: Climate Change and Carbon Trading. As consultants who have assisted our clients to participate in carbon markets, these issues remain as principal areas of concern for Energetics.

Section 3.2

Auctioning

Is permit price realisation and discovery best facilitated through the use of auctioning under an ETS?

Energetics believe that auctioning provides the fairest method of setting the price of carbon permits, provided that the auctioning mechanism results in permits being the same price for all participants. The reverse auctioning system employed in the National Electricity Market for interregional settlement residues is an example of such an auctioning system. All participants wishing to participate in this auction submit their bid for the desired quantity. The clearing price is set by the lowest bid required to take up the total allocations on offer.

To what extent, and on what basis might it be desirable that permits are not allocated via an auction system.

Energetics believes that a mechanism is required to encourage energy efficiency projects. Reserving a proportion of credits for issue to energy efficiency projects will avoid double counting while providing an incentive for projects that achieve real Greenhouse Gas reductions. Experience has shown that recognising energy efficiency (for example, the NGACs) results in the increase in the number of energy efficiency projects.

Facilitating Forward Trading Markets - Banking and Borrowing of Permits

What features of an ETS might impede the emergence of forward markets?

Regulatory uncertainty impedes the emergence of forward markets. The earlier the targets are known the better, so companies are able to make long term capital investment decisions against the forward price of permits. As a minimum, 15 year information on the level of the cap is required.

Is it possible to have strong and efficient forward markets with restrictions on the use of permits, such as limited banking and borrowing.

In Energetics experience banking has worked well to assist companies manage liabilities from year to year, particularly when the target is increasing as it is expected to do so in the Australian Emissions Trading Scheme. Banking has not impacted forward markets.

Energetics does however believe that borrowing will impact the forward markets. Companies choosing to defer liability through borrowing are likely to drive prices higher in future years than otherwise would have been the case. Borrowing will also delay investment in low emission infrastructure, which is not consistent with the ultimate purpose of having an emissions trading scheme, ie, the reduction of emissions.

Section 3.3

Positioning Australia as a regional hub in the Asia Pacific Carbon Markets

How can governments help facilitate Australia becoming a regional hub in the Asia-Pacific carbon markets?

Energetics believes that there is a facilitator role that the Australian government can fulfil in the CDM markets in the Asia Pacific region. Many Australian businesses have great technology available for potential CDM projects but limited resources. A role in facilitating the negotiations with the Designated National Authorities would assist Australian businesses reduce the administrative burden of getting projects approved.