

16 April 2008

Submission to ETS Discussion Paper
Garnaut Climate Change Review Secretariat
Level 2, 1 Treasury Place
East Melbourne Victoria 3002
Email: contactus@garnautreview.org.au

Dear Sir/Madam

GARNAUT REVIEW - EMISSIONS TRADING SCHEME DISCUSSION PAPER

The Energy Networks Association (ENA) welcomes this opportunity to respond to the Emissions Trading Scheme Discussion Paper released by the Garnaut Review in March 2008.

ENA is the peak national body representing gas and electricity distribution businesses throughout Australia.

Energy network businesses deliver electricity and gas to over 12 million homes and businesses across Australia through approximately 800 000 kilometres of electricity lines and 75 000 kilometres of gas distribution pipelines. These distribution networks are valued at more than \$35 billion, and each year energy network businesses undertake capital investment of more than \$5 billion in network reinforcement, expansions and extensions.

While they do not have a primary role in the production, generation and retailing of energy, network businesses nevertheless emit greenhouse gases as a result of construction, operation and maintenance of extensive networks that serve customers. As such ENA members are committed to practical action on climate change. This has resulted in ENA member involvement in the Greenhouse Challenge Program and the more recent development of the National Greenhouse Reporting Regime. Further, ENA has just initiated a major assessment of the challenges, solutions and opportunities climate change presents for network infrastructure with a view to releasing a report by September 2008 for use as a reference by policy makers, advisors and economic/technical regulators.

ENA supports Government endeavours to address the challenge of climate change mitigation through the introduction of a well designed emissions trading scheme (ETS) that takes account of the best scientific information and the global response to the issue. In this regard ENA has no issues with the overall thrust of the Garnaut Review to date and with the main aspects of the ETS outline that is being developed. We also endorse linkage of the ETS to our regional trading partners given the greater abatement opportunities in the South East Asian region.

Notwithstanding the above, there are a number of messages ENA wished to convey at this time in response to the Discussion Paper. These are in relation to:

Coverage of the ETS

ENA's view is that those entities that produce the electricity and are in receipt of the associated payments through the National Electricity Market are in the best position to influence both direct and indirect emissions and the behaviour of others downstream as they will pass-on emission

related costs. End users of electricity who pay the electricity bills would have the most scope for adjusting their consumption in response to increased prices.

Electricity transmission and distribution networks have no influence as to where power generators are located and as such do not determine the length of electricity lines and therefore a major component of the level of electricity line losses that eventuate.

Given that the generators of electricity are in the best position to determine the levels of greenhouse gases to be emitted ENA's preferred outcome is that generators account for all emissions associated with electricity production under a future ETS. This represents a first best solution as it holds the primary greenhouse gas emitter accountable for all emissions.

As to the issue of electricity line losses there is currently a policy process underway through the Ministerial Council on Energy (MCE) considering the approach to network losses for regulated distribution businesses.

For gas pipelines, ENA notes that the Discussion Paper mentions fugitive emissions (p52). ENA accepts that these emissions are a direct contributor to the greenhouse problem and accordingly has engaged the National Greenhouse Reporting Taskforce in discussion on measurements relating to pipeline gas leakage.

On a separate matter, ENA's view is that the ETS should have as wide a coverage as possible to maximise the efficiency of the scheme. Accordingly, inclusion of the agriculture and forestry sectors is supported.

Impact of the ETS

Recent media statements suggested that some existing coal power stations could be forced to close due to the ETS. This may be premature but nevertheless raises concerns that the ETS is increasing investment uncertainty and may compromise energy reliability and security. In this context ENA's issue is that the ETS settings should not have a negative impact on energy supplies while there is not a concerted credible global effort to address climate change that includes developing nations such as China and India.

As to new electricity power generation, ENA believes that the ETS will provide a comparative advantage for gas powered plant which is supported given that this is a cleaner fuel alternative to coal.

Definition of Point of Obligation

The Discussion Paper defines the point of fugitive emissions for gas pipeline systems (p30) as being:

...the place on pipe line systems as defined by operational control of the physical infrastructure, such as pipes, valves and compressor stations.

ENA in its submission to the National Greenhouse Emissions Reporting - Policy Paper in February 2008 noted that the party with operational control of energy transmission or distribution infrastructure may not always be the party with the authority to implement environmental or other policies. Further it should be noted that the National Greenhouse and Energy Reporting Act 2007 specifies that in circumstances where more than one corporation has authority, then the corporation with the greatest authority to introduce and implement operating and environmental policies is taken to have operating control.

Legal advice acknowledges that there are circumstances where the greatest responsibility to implement policies does not sit with the facility operator. Furthermore, where there is an assumption in legislation that authority lies with the operator, it would be difficult to define who in fact is the 'operator'. Some contractors may colloquially be called operators when in fact they have little control over those aspects of operations that specifically lead to emissions. It is therefore inappropriate for ETS legislation to assume that any particular corporation is the controlling entity.

ENA suggests that the entities themselves should be responsible for deciding which entity is the controlling corporation, essentially because it is only the entities concerned that are familiar with their particular operational/contractual arrangements.

Use of Permit Receipts

The Discussion Paper addresses the issue of payments, sourced from permit auction receipts, mentioning that one claim on these revenues could be '...payments to firms to correct market failures in relation to new technologies' (p95).

The discussion paper addresses the meaning of 'market failure' (p6) stating that there is a role for Government action associated with market failures associated with extended electricity transmission infrastructure and energy efficiency among other items.

For electricity networks the inability of stakeholders involved in the energy supply chain from producer to final consumer to capture the full benefits of technologies involved in demand side management whose ultimate objective is energy efficiency and greenhouse abatement is a case where market failure exists. Further there is a 'public goods' aspect to the mitigation of greenhouse impacts. These issues have been raised by ENA in the context of the MCE recently released papers covering the costs and benefits on a national smart metering roll out.

As smart meters are a new technology with the ability to facilitate greenhouse abatement ENA wishes to draw attention to the likely eligibility of such meters for funding support under the proposal as set out in the Discussion Paper.

Should you have any queries in relation to the above please do not hesitate to contact me.

Yours sincerely



Andrew Blyth
Chief Executive