

17 April 2008



The Secretariat
Submissions
Garnaut Climate Change Review
Level 2, 1 Treasury Place
MELBOURNE VIC 3002

Attention: Rob Murray-Leach

Dear Mr Murray-Leach

Emissions Trading Scheme Submission

ENERGEX welcomes the opportunity to make a submission on the important policy implications regarding the Garnaut Climate Change Review.

We note the 'Working Proposition' of the Garnaut Climate Change review: Energy Efficiency Roundtable is:

"The introduction of an emissions trading scheme (ETS) is the primary instrument for securing a reduction in greenhouse gas emissions. The introduction of an ETS will drive a carbon price that flows through to end use prices, thereby increasing the economic attractiveness of measures that lower emissions. However, a variety of barriers may inhibit the uptake of low (or negative) cost measures, such as energy efficiency."

We would like to make a few key points in regard to the review.

- An important consideration in the development of any climate change program is the recognition of the key target areas. One essential piece of logic is the multiplier effect of any energy conservation or demand management program at the final customer level. To produce energy at a final customer level requires fuel use to provide electricity generation, electricity transmission, electricity distribution and finally conversion using some form of household appliance. Studies have indicated that the efficiency losses in every one of these processes can result in only a very small amount (less than 5%) of the initial fuel-based energy being utilised as useful energy by the customer. Using the inverse of this logic a saving a one unit of energy at the customer end can produce savings in primary energy and associated emissions up to 20 times greater at the energy production end. Therefore, savings targets are best directed at energy conservation and demand management at the final customer level.
- ENERGEX is very supportive of energy conservation and demand reduction to enable lowering emissions to reduce climate change impacts. ENERGEX, together with Ergon Energy and Powerlink Queensland has recently completed a major study on Energy



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Conservation and Demand Management initiatives. This study is central to our policy approach on these matters and forms a key strategy component for ENERGEX into the future.

- Our policy approach is modelled, in part, on our own successful energy conservation and demand management programs, as well as examining successful programs in the USA. The approach has three key elements (a) most successful programs involve the electricity distributor as a catalyst and driver for successful customer energy and demand reductions, (b) we acknowledge that increased prices through ETS will contribute to the economic attractiveness of measures that lower emission, however this becomes more powerful if coupled with utility-led demand management initiatives and (c) the cost of electricity infrastructure to customers to meet their future peak demand is unsustainable unless key elements (a) and (b) are addressed.
- ENERGEX is concerned that customers may not be able to access market-ready options to manage their energy conservation and demand management, in the same timeframe that the ETS will be introduced. This will leave customers exposed to high costs for ETS until the supply in the market for ETS response measures adjusts to the demand. We believe that Governments and Regulators must work with utilities such as ENERGEX in the development of energy conservation and demand management tools to enable customers to manage their exposure to the ETS.
- One of the major impact and risk issues in relation to the development of energy conservation and demand management relates to the current economic regulatory framework for monopoly network service providers such as ENERGEX. This framework is primarily directed at regulation of monopoly pricing for network services and does not address key issues around support of energy conservation and demand management. We are strongly of the view that consideration must be given to modifying the current economic regulatory framework to enable businesses such as ENERGEX to invest in energy conservation and demand management initiatives as a viable alternative to traditional supply side solutions. In this way, network businesses will be incentivised to support the principles of the review through working with customers to reduce demand rather than simply building more network.
- A major risk to all distribution network service providers (DNSPs) across Australia will be the treatment of ETS financial value of line losses. The view of ENERGEX and the Energy Networks Association (representing all DNSPs in Australia) is that the ETS financial value of line losses will be a 'pass-through' cost to consumers, as part of the cost recovery mechanism administered by the Australian Energy Regulator. As ENERGEX is not a generator, buyer or seller of electricity, the ETS financial value attributed to electricity should not attach to ENERGEX's activities. ENERGEX's function in the electricity industry is that of transporting electricity, similar to a Roads Department in providing roads for cars to drive on. In the same way the Roads Department should not attract ETS liability for vehicle emissions, nor should ENERGEX attract ETS liability for customers' use of electricity.
- ENERGEX is proposing to conduct a range of energy conservation and demand management trials and pilot programs such as our recent Cool Change trial. This trial involved cycling of air-conditioner compressors over peak periods to reduce electricity demand. This trial has been very successful to date and demonstrates the value of DNSP programs. In this way, customer interactions and technology to support energy conservation and demand management can be fully understood and thereby lead to bigger programs with greater assurance of success in future years. As stated above, funding support is crucial in the development of these programs and is not provided through the current regulatory framework.

In summary , ENERGEX acknowledges the role of a future ETS to address carbon reduction, but aggressive programs of energy conservation and demand management must also be considered now to help customers prepare for the impact on end-use prices when the scheme commences.

We trust that these points assist on this important matter. For any enquiries please contact Chris Arnold on telephone (07) 3407 4497.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Terry Effenev', written in a cursive style.

Terry Effenev
Chief Executive Officer