

22 December 2006

National Emissions Trading Taskforce
The Cabinet Office
GPO Box 5341
Sydney NSW 2001

Dear Sir

NATIONAL EMISSIONS TRADING SCHEME DISCUSSION PAPER

Melbourne Water has reviewed the discussion paper “Possible Design for a National Greenhouse Gas Emissions Trading Scheme” and would like to make the following comments.

General

Melbourne Water believes that climate change is a significant risk to our business. Research conducted by the CSIRO for Melbourne Water has demonstrated that water yields from our catchments will reduce and that the supply demand balance will be changed requiring either reduced per capita demand or increased supply. Planning for future water supply provision has included consideration of this, demonstrated in the Central Region Sustainable Water Supply Strategy. Concern about the level of impact climate change may have on water supply is also part of planning for future sewage and drainage management. Melbourne Water believes that reducing its own emissions is just as important as planning to mitigate the potential effects of climate change. A number of steps to reduce emissions have been taken including:

- Establishing an inventory of greenhouse gas emissions and determining how these will change due to operational changes and asset changes;
- Setting and achieving significant reduction targets for greenhouse gas emissions;
- Incorporating greenhouse gas emissions into decision-making processes;
- Maintaining an active interest in research and activities regarding climate change and potential effects on Melbourne Water’s water, sewerage and drainage systems.

The proposed trading scheme can provide strong incentives to increase renewable energy generation and Melbourne Water can contribute to this, although the most commercially viable opportunities have already been identified with some being implemented. Melbourne Water is also interested in purchasing energy that is greenhouse neutral and will use appropriate amounts of this energy to balance its future greenhouse targets.

Melbourne Water is a large user of energy and has achieved a 35 % emission reduction since 2000/01 through process changes and increased renewable energy generation and use. The driver for this has not been regulatory although the reduction has been used to show compliance with regulatory requirements. Melbourne Water would not like to see this responsible behaviour penalised through no-recognition of these early actions.

Specific

Melbourne Water supports a cap and trade approach that has established significant and enduring emission reductions. Confidence in the viability of investments will help to secure long-term improvements in Australian emission levels.

An early than 2010 start to a trading scheme is supported so that the ground that has been lost due to low levels of emission reductions under voluntary approaches and increased energy demand due to population growth is addressed sooner.

Using 2000/01 as a baseline is supported. This is the same baseline that Melbourne Water uses when calculating its emission progress.

Melbourne Water would prefer a trading scheme to be uniform across Australia so that investment confidence is built. State by state approaches means that the energy industry has to deal with different scheme rules and this does not support confidence.

It is possible that some generators have been waiting for a trading scheme to emerge so that low hanging fruit in terms of emission efficiency actions can be implemented. Recognition of energy intensive industry by allocating free emissions permits should be tempered with this in mind.

Thank you for the opportunity to provide comments on the Discussion Paper. I look forward to seeing positive development of a trading scheme in Australia. If you need any further information on Melbourne Water's response contact Erik Ligtermoet on 9235 7219.

Yours sincerely

Peter Scott
General Manager
Research and Technology