

Stakeholder Feedback – NSW Emissions Trading Forum, 10 November 2006

| Design Feature | Questions or comments about current design | Responses/suggested issues to consider in next phase of work |
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| Coverage | <ul style="list-style-type: none"> • Why were industrial processes excluded from coverage? • Why not cover transport? Imputed emissions for refineries could be considered, or downstream transport emissions. • Would fugitive emissions be considered under sectoral coverage at a later stage? • Cement industry – emissions from energy would be covered, but not those from calcination? | <ul style="list-style-type: none"> • Industrial processes make up 5% of emissions and are largely trade-exposed industries with no low-emissions technologies expected to be available in the near future • Permit prices envisaged for the scheme not currently high enough to influence transport options • At present fugitive emissions are being considered in the context of offsets • Calcination emissions are an industrial process so would not be covered; energy emissions would be covered. |
| Caps | <ul style="list-style-type: none"> • Reductions of 60% are needed by 2050, but the caps shown are only about 5-10% reductions by 2030 • A 10 year timeframe for caps, whilst useful, will not provide enough certainty for investments • Boards are typically conservative and will base any investment decisions on the lower end of bandwidth ranges being proposed for scheme caps | <ul style="list-style-type: none"> • Most of the current generation capacity will still be in place by 2030, but nearing the end of its life. Large scale asset replacement (and emissions reductions) is expected after 2030 • Firm caps are accompanied by gateways for the following 5-10 years, which balances 20 years of reasonable certainty with flexibility to adjust to wider greenhouse policy developments |

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| | <ul style="list-style-type: none"> • Differentiated caps could be considered as a means of covering different players, such as separate consideration for trade exposed industries • The current electricity market isolates cleaner technologies, and a price signal is required now • Locking Governments in setting of caps, which may need to be adjusted in the context of international influences, may create additional risk for Governments • Will coal exports be included in the cap? | <ul style="list-style-type: none"> • Differentiation for trade exposed industries is being addressed in the context of permit allocation • Coal exports are not currently being considered in the context of a national emissions trading scheme. |
| Indicative caps modelled | <ul style="list-style-type: none"> • Has modelling on caps considered the cost impacts of delaying scheme commencement – if the scheme started later what would the impact be on scheme costs? • How was energy efficiency potential determined in the context of the economic modelling for caps? • Were more aggressive targets considered for economic modelling? • Should the modelling go out to 2050 to give a clearer context for how the emissions trading scheme will manage a 60% below 2000 emission levels target by 2050? | <ul style="list-style-type: none"> • Not at this stage. However, the Australian Business Roundtable report considered the potential impact of delaying action, as did the Stern Report. • The economic modelling incorporated levels of energy efficiency but didn't specify particular policy options. Some energy efficiency was induced, but most was assumed to have been imposed. • Requests have been made to model more aggressive targets, further work is needed in Australia on climate change risk to feed into modelling. Suggestions are welcome. • Long term modelling to 2050 contains a level of uncertainty that whilst recognised by practitioners may not be noted universally. |

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| | <ul style="list-style-type: none"> Have other sectors been considered in the economic modelling to reflect a potential broadening of scheme coverage at a later date? | <ul style="list-style-type: none"> Modelling did consider other sectors to cover wider scheme coverage. The data quality may be limited, and additional comments are welcome. |
| Penalty | <ul style="list-style-type: none"> If a penalty is being used to determine a cap on scheme costs, it may be more important to provide certainty for industry by setting a long term penalty rather than a long term cap The spot price is at a similar level to the penalty cap under the NSW Greenhouse Gas Abatement Scheme. There may be instances of cash settlements at 120% of the penalty, allowing a few players to artificially cap the price above the penalty. The forward market and spot prices will need further consideration, in the context of reputational risk (will companies pay more than the penalty level to secure certificates and maintain reputation) A floor price should be included in addition to a ceiling price for compliance Penalty revenue should be invested in abatement. | <ul style="list-style-type: none"> Long term penalty setting to be further considered. Reputational risk considerations to be further addressed – comments welcome. A floor price could be incorporated – further comments welcome. A range of options are being considered for any potential revenue. Comments are welcome. |
| Permit allocation | <ul style="list-style-type: none"> Will early movers be recognised? How will new entrants be defined? Assessment of permit allocation to individual entities will be arbitrary to some extent, irrespective of the approach used. | <ul style="list-style-type: none"> Baselines are being considered to determine permit allocation. Baselines need to balance recognition of early movers against additionality. Views welcome. Definition of new entrants could be based on scheme announcement date, date of legislation or other options. Views welcome. New entrants are likely to be more |

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| | <ul style="list-style-type: none"> • How far forward should permits be allocated and how will this impact on the spot price? | <p>efficient and will despatch their electricity.</p> <ul style="list-style-type: none"> • Option of short and long term permits is being considered. Comments welcome. |
| Allocation to generators | <ul style="list-style-type: none"> • For generators that cease operations after scheme commencement, how long would their stream of permits last? • Are assets being kept operational in expectation of scheme introduction and a pool of permits before being closed down? • What is a generator for the purposes of permit allocation – is it based on individual sites or would a portfolio approach be considered? • Concern that the process of allocation to generators will be gamed, and that everyone else will bear the cost. • What is the definition of a generator? A new entrant generator? | <ul style="list-style-type: none"> • Net present value based on 20 years being considered in determining stream of permits for generators closing down. Comments welcome. • Less permits would be required for a portfolio approach, which could impact on the scheme. Views welcome. • Aim is a transparent and fair process, with adjudication, and adjudication appointments also being by transparent and fair process. Discussion Paper also seeks views on whether a simpler process should be used. • Seek comment on how a new entrant generator should be defined. |
| Allocation to trade-exposed, energy-intensive industry | <ul style="list-style-type: none"> • How will import exposed industries be dealt with under the scheme? • As only the Commonwealth will ever run this scheme, there are better ways to manage effects on energy intensive, trade-exposed industry. | <ul style="list-style-type: none"> • Import and export competition anticipated to be treated the same, under provisions for trade exposed industries. |
| Auctioned permits | <ul style="list-style-type: none"> • What level of auctioning is likely to be considered? • What will revenue from auctioning be used for? | <ul style="list-style-type: none"> • Comments on options for incorporating auctioning welcome. • Streams for any auctioning revenue |

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| | <ul style="list-style-type: none"> • How far ahead of time would permits be released? | <p>not yet determined – could be low income households, regions or technologies. Comments welcome.</p> <ul style="list-style-type: none"> • Possible to have some future allocation out under lower gateways and possibly some at very low volumes beyond that. |
| Offsets | <ul style="list-style-type: none"> • How will transition of offsets that are later included in covered sectors be treated? • Offsets for sequestering emissions should be supported, but offsets for not emitting are problematic • How will carbon capture and storage (CCS) be treated – is it a separate offset or considered as part of the generation process in allocating permits? • There are permanence issues associated with geosequestration, and issues relating to liability for leakage. Suggest that insurance could be available to buy permits if geosequestered emissions are released. • How will regional impacts of sinks plantation be considered? <ul style="list-style-type: none"> • Will Article 3.4 sinks be open to all options, including wood products? • The Joint Implementation methodology does not consider additionality testing for environmental benefits, whereas the CDM does. Wouldn't the CDM approach provide a better methodology? | <ul style="list-style-type: none"> • Adequate timeframes for transition of offsets to covered sectors required – 5 years suggested. Comments are welcome. • Power station operations could be considered separately to CCS, which would mean the permanence of the offset is not tied to a generator. Views welcome. • Regional impacts of sinks plantations could be considered outside the context of emissions trading. (Note: one operating business model for sinks leases only strips of farmland and does not have adverse effects on regions or farm businesses.) • All options in relation to Article 3.4 offsets are being considered. • Additionality is an important consideration for assessing offset projects. Comments welcome. • Renewable energy generators should |

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| | <ul style="list-style-type: none"> • Renewable projects won't be considered due to double counting issues? • How will GGAS offset projects transition to a national emissions trading scheme (NETS)? • What confidence can companies creating "avoided deforestation" abatement under <i>Greenhouse Friendly</i> have that they can trade such credits into a NETS? • Could the RGGI approach to allowing CDM credits be adopted? (ie expand the amount of compliance allowed by using offsets if certain permit trigger prices are reached.) | <ul style="list-style-type: none"> • be beneficiaries of the scheme through wholesale electricity prices, and there are already complementary schemes – MRET, proposed VRET and potential NRET. • Transition options from GGAS to a NETS to be determined. Baselines may need to be addressed • <i>Greenhouse Friendly</i> is a Commonwealth program. Participation under a NETS would be tied to Commonwealth position on the scheme. • The taskforce is considering options for addressing CDM credits. Comments are welcome. |
| Transition | <ul style="list-style-type: none"> • Assumed benefit to renewable electricity generators assumes spot trading not long-term contracts? • NGACs grandfathered to 2021 if a NETS starts before then? | <ul style="list-style-type: none"> • No intention to interfere with MRET, VRET or NRET. Existing schemes may bridge cost gaps until carbon prices increase and/or technology costs fall. • In general, generators that improve their emissions intensities under GGAS are likely to be better positioned to meet the requirements of a NETS. Specific transition details are still to be determined. Comments are welcome. |