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Roger Wilkins
Chair, Inter-Jurisdictional Working Group on Emissions Trading
The Cabinet Office
GPO Box 5341
SYDNEY NSW 2001

Dear Mr Wilkins

Thank you for this opportunity to provide feedback to the Inter-Jurisdictional Working Group on Emissions Trading on 'A National Emissions Trading Scheme'. Accordingly, the Water Corporation is providing the following submission, framed against each of the design propositions made by the Working Group.

The Water Corporation supports a national emissions trading scheme, but is keen that the scheme does not disadvantage early movers such as ourselves. We believe the scheme must be national and aligned with international schemes to facilitate inevitable global trading of carbon. The scheme should in the first instance involve energy suppliers and possibly major users of stationary energy. It should prioritise emissions reduction, but allow for technological constraints through future expansion to encompass abatement and offsets. Robust ownership, accounting and auditing systems for abatement and offsets, aligned with international processes, will be imperative for the scheme's credibility.

Background

The Water Corporation is one of Australia's largest water service providers, with nearly \$9 billion invested in water services infrastructure. It is WA's second largest consumer of Electricity Grid energy and currently has gross annual emissions of over 400,000 tonnes CO₂-e. The Corporation takes its greenhouse gas emissions seriously. It is an early mover in this field, and has participated in the Greenhouse Challenge program since 2001 and was awarded the Gold Award in 2003 in recognition of its actions; including annual abatement of 110,000 tonnes of CO₂-e. The Corporation is endeavouring to reduce emissions even further and recently set an aspirational target of becoming greenhouse neutral by 2030.

Proposition 1: That a cap and trade approach be used as the basis for scheme design.

- We support a system that facilitates international trading, and allows for flexibility in the allocation mechanism(s) adopted. An internationally consistent accounting system must therefore be developed and adopted.
- Permit allocation must not disadvantage early movers, but at the same time needs to encourage new entrants. There has been a disappointing level of credit given to early movers in the European scheme. An Australian scheme should acknowledge prior achievements by using emissions averaged over several years
- The water sector would be disadvantaged by grandfathering since emissions per unit of output are growing due to declining rainfall leading to the need to: draw from increasingly remote water sources; need to access more energy intensive sources (e.g. desalination); increased regulator requirements; and increased customer water quality expectations (in particular for wastewater treatment).

Proposition 2: That the scheme be national and sector based

- We support a national scheme that would avoid inconsistent treatment across state boundaries, maximize offset opportunities nationally and provide for equitable treatment of all sectors, so that for example, emissions from one sector are not considered less important than those from another sector.
- Being a global cross boundary issue, international inconsistencies, let alone national inconsistencies will create administrative problems that get in the way of the outcomes we are seeking.
- A national scheme will also be important to facilitate involvement in international schemes.
- State allocation schemes could lead to industries relocating to gain a trading advantage

Proposition 3: That in setting the cap, consideration be given to the overall national emissions abatement target, and how the abatement responsibility is allocated between sectors covered by the scheme and those outside the scheme.

- It is important to prevent inconsistencies across state boundaries that might advantage industries operating in one state relative to another.
- The scheme needs to evolve to encompass all sectors.
- The scheme must ensure that caps are sufficiently flexible in the long term to accommodate changes in ‘allowances’ and are allocated proportionally rather than on an absolute basis to share risks associated with unforeseen changes.
- Access by sectors initially in the scheme to offsets outside those sectors should initially be restricted to avoid disadvantaging sectors that subsequently come under the scheme.

Proposition 4: That the scheme initially cover the stationary energy sector.

- Monitoring at the point of emission would be the most effective in terms of administration in the initial stages; but effective methodologies for upstream (e.g. from coal extraction and transport) monitoring should be established to give accurate measurements of the true greenhouse intensity of fuels and generation.
- The upstream monitoring of emissions; e.g. electricity contracts with gas, coal or renewable generators; for other sectors will be important to establish their true emissions profile.
- Generation from renewable energy will need to be included in the scheme once it is expanded to other sectors. As with the UK National Allocation Plan where it is incorporated in the scheme as:

“Electricity which is certified by the participant’s supplier as being from eligible renewable energy sources ...”
- Once other sectors enter the scheme, emission factors need to reflect individual contracts between companies and electricity suppliers. The state emission factors used in such programmes as the Greenhouse Challenge do little to encourage sourcing electricity from lower emission sources and may also result in inequalities between different states and territories.
- To encourage the uptake of increased efficiency and cleaner technologies the scheme should not include offsets until all sectors are involved in the scheme.
- We support permits being applied at the point of emission rather than at point of retail, but that responsibility can be transferred to large users e.g. who can contract to purchase renewable energy.

- Where possible, downstream users should be provided with direct incentives to reduce emissions.
- If the issue of emissions is to be seriously addressed the scheme should speedily consider its expansion to other industries as methodologies for monitoring and auditing of emissions become appropriate to administration and general business costs.

Proposition 5: That the scheme cover all six greenhouse gases under the Kyoto Protocol

- None of the six key gases that contribute to climate change should be excluded from the scheme. However, reasonable thresholds for inclusion should be adopted to avoid excessive administrative expense to account for insignificant production of gases by an organization.
- Establishing the scheme to cover all six gases would provide for its evolution to encompass sectors where emissions of gases other than just CO₂ are significant. It will also provide for consistencies with international schemes as they evolve to include gases other than just CO₂.
- Recognising the importance of gases other than just CO₂ will encourage abatement technology for them as well.
- The Water Corporation has systems in place to account for nitrous oxides and methane as well as CO₂; the others are insignificant to our operations.

Proposition 6: That permit allocation be made on the basis of a mix of administratively allocated and auctioned permits, with both long and short term (annual) permits.

- Grandfathering at current emissions, or a uniform percentage of such, would disadvantage early movers, and effectively reward sectors and companies that have not recognized their environmental responsibilities.
- If allocation should be made through grandfathering then averaged emissions over several years should be used.
- To recognise early movers, companies who have shown reduced emissions; per unit of production; over several years prior to the introduction of the scheme could use the years prior to the reductions to calculate their averaged emissions.
- Allocating short term permits; linked to emissions reduction targets; administratively allows more certainty to the market; and participants; as it evolves during its early phases.
- Notwithstanding the above, it should be recognized that water industry emissions are increasing due to combinations of population growth and climate change which necessitates use of more energy intensive sources, such as desalination. If emissions permits were 'grandfathered', it would adversely affect this industry due its increasing energy use per unit of output.

Proposition 7: That a penalty should be set to encourage compliance and to establish a price ceiling for the permit market.

- Organisations not complying with their permits during a compliance year should be required to make good the shortfall within the following compliance year and should have a penalty applied which is sufficient to strongly encourage compliance, such as the 30% suggested by within the Kyoto Protocol.

- The penalty system should be sufficiently well aligned with international schemes to prevent international purchasing of ‘cheap’ permits, which would make national scheme administration problematic.

Proposition 8: That offsets be allowed

- Admission of offsets into the scheme will be important, particularly to overcome technological limitations to abating emissions from a sector.
- Measurability of offsets will be important, along with robust accounting and auditing processes. Similarly, clearly established ‘business as usual’ baselines are needed, against which offsets would be claimed.
- Vegetation offsets are likely to be affected by vagaries of the environment, such as fire, disease, salinisation, flooding, drought etc. Appropriate on-going monitoring of condition and carbon stores will be important, and the ‘carbon credit’ status adjusted as appropriate
- Any offset process requires a robust monitoring, auditing and accounting system that is capable of gaining international recognition for emissions reduction and acceptance into other trading systems.
- Opportunities for offsets are probably only limited by our imagination at this stage so the scheme needs to be careful not to artificially constrain what is admissible. For example, emissions abatement through one industry’s heat waste being another’s heating needs, or as part of Australia’s aid program to improve ‘dirty’ technology in undeveloped countries.
- Provisions for offsets; such as through forestry; should be explored; however their early introduction to the scheme would offer the stationary energy sector a reduced incentive to invest in clean energy efficient technologies.
- Once the scheme has been expanded to involve all emissions sectors: offsets, such as demand management and efficient technologies (to reduce energy end use), and sequestration (especially linked to improvements in bio-diversity) could be included
- Clear accounting protocols are needed to prevent ‘double counting’ of abatements; unambiguous ‘ownership’ of emissions liabilities and abatement benefits is needed.

Proposition 9: What mechanisms be included to address adverse effects and structural adjustment.

- To encourage reduced energy use by end users, improvements following equipment retrofitting programmes could be used as offsets. These could be effective in reducing the effect of increased prices especially for low-income households. These would also have the added benefit of increased employment opportunities.
- Long term permits; possibly in the form of a ‘futures market’; released in auction could allow businesses some risk control in future permit trading.

Proposition 10: That mechanisms be included to allow a transition for participants who have taken early abatement action and new entrants

- Companies who have recognised their greenhouse responsibilities prior to the introduction of an emissions trading mechanism should not be penalised by the system.
- Averaged emissions over several years could be used to set permit allocations.
- Companies who have shown reduced emissions; per unit of production; over several years prior to the introduction of the scheme could use the years prior to the reductions to calculate their averaged emissions.

- New entrants; especially those demonstrating clean energy efficient technologies; should be encouraged to enter the scheme and a quantity of permit allocations should be set aside for this purpose.
- The allocation of permits to new entrants would need to encourage energy efficiency and should take into account a measure of emissions per unit production as criteria.

Yours sincerely

Sue Murphy
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