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National Emissions Trading Taskforce Secretariat
The Cabinet Office
GPO Box 5341
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Via email : submissions@emissionstrading.net.au

Dear Secretariat Members,

Energy Developments Limited (EDL) welcomes the opportunity to comment on your Discussion Paper entitled *Possible Design for a National Greenhouse Emissions Trading Scheme*.

EDL is one of the world's leading developers and operators of landfill gas (LFG), remote area and coal mine methane (CMM) power projects. Our growth is such that by 30 June 2007 EDL's total operating capacity is expected to have surpassed 540MW in Australia, USA, UK, France, Greece and Taiwan.

EDL is the only Australian company recognised in the leading KLD¹ Global Climate 100 Index – an index of the top 100 firms globally that:

“is designed to promote investment in public companies whose activities demonstrate the greatest potential for reducing the social and economic influences on climate change”.

EDL currently plays a key role in investing in and providing the renewable energy the nation will need to achieve desired emission reduction levels. We are one of the largest renewable energy and low greenhouse emission generators in Australia with a LFG and CMM generating portfolio of close to 180MW.

EDL is therefore involved in all the national and state based schemes and strongly supports the implementation of a national regime such is as proposed under the National Emissions Trading Scheme. We consider such a Scheme is not just consistent with an objective of providing significant greenhouse gas emission reduction but will also actively and effectively encourage substantial investment in Australia.

EDL appreciates the opportunity to comment on the Discussion Paper and would like to make the following comments and recommendations:-

¹ KLD Research and Analytics in partnership with The Global Energy Network Institute (GENI)

Proposal : Offsets

EDL Position : Wider Scope Required

To maximise emission reductions, it is important that the NETS offsets regime recognise emissions reduction of all six of the greenhouse damaging gases recommended by the Intergovernmental Panel on Climate Change (IPPC). These gases comprise carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulphur hexafluoride (SF₆).

An effective offsets regime is vital to the Scheme's purpose and success. With coal mining such a large industry in Australia and emitter of harmful greenhouse gases, methane destruction associated with coal mine operations must be added to the existing priority offset areas. It is critical that CMM and LFG (waste methane to power) projects are eligible for NETS offsets for the Scheme's objectives to be achieved.

It would also be of benefit for the eligible offsets to extend to projects that facilitate the displacement of oil based hydrocarbon fuels, such as diesel, which are largely imported, with indigenous natural gas supplies through the use of LNG and CNG based technologies, reducing the level of emitted greenhouse gases.

Participants in long term abatement projects require confidence in the availability of offsets for a significant period of time before committing and/or financing projects. The minimum necessary time period would be in the range of 12 - 20 years.

EDL operates in the successful NSW/ACT GGAS and believes that the NETS should build upon this scheme's proven methodologies and baselines as much as possible. This will smooth the transition from GGAS to NETS, capitalize on the expertise and experience that already exists and avoid harming investment confidence in abatement projects.

This last point is crucial to ensure that project construction between now and NETS implementation continues so as to continue to deliver greenhouse gas reduction benefits under GGAS. It is critical for the ongoing success of GGAS that there is no risk a project would be eligible for GGAS but could be left stranded due to ineligibility for NETS. Methane destruction associated with coal mine operations is already included within GGAS, so this should pose little methodological difficulties and would pick up another area offering potential for low cost abatement that is not currently proposed for coverage. There is no doubt that the current uncertainty over scheme eligibility is already being factored into investment decisions.

CER Eligibility

We do not disagree with the use of CERs from CDM projects, providing their Scheme eligibility is limited and clearly defined. Australia is one of the most greenhouse intensive economies in the world. One of the key rationales for implementation of an emissions trading scheme now is to lower Australia's risk exposure in the interests of better positioning the country in the event that an international greenhouse control agreement is put in place down the track. Widespread use of CERs, instead of lowering domestic emissions, will do little to address this carbon risk exposure and send money overseas to support other economies in lowering their own carbon price exposure. CERs should only be allowed in lieu of Australian permits or offsets if there is a limit on their use of CERs to no more than a small percentage of the total cap.

Proposal : Level of the Emissions Cap
EDL Position : Tighter Caps Required

The level of the cap needs to be tightened from scenario 2 for two reasons:-

1. The expected cost per tonne of CO₂-e emitted under scenario 2 is at most \$35 over the life of the scheme, well below the cost of carbon estimated by the Stern Review of USD\$85 per tonne CO₂-e under a business as usual scenario; and
2. Scenario 2 caps are inconsistent with the need to stabilise overall greenhouse emissions from all sectors (not just electricity), given that emissions are expected to grow substantially between now and 2025, and there are insufficient alternative abatement measures covering other sectors that could be expected to deliver equivalent reductions to achieve emissions stabilization.

Proposal : Time Frame of the Emissions Cap
EDL Position : Tighter Gateways Required

The 10 year firm caps set on a rolling annual basis with another ten years of gateways are insufficient to support project investment timeframes. We believe that these timeframes should be increased to a 15 + 15 basis. More critically, the level of these gateways should be more stringent than that contained within scenario 2.

Proposal : Coverage – Expanding Cap
EDL Position : In Support

It is critical that mandatory, public reporting of emissions from the ‘non-electricity’ stationary energy sectors is introduced as early as possible. Availability of this information will be critical for participants in the permit market to make reasonably informed judgments about possible implications of these sectors future inclusion. Without this information the confidence in the emissions trading market will be reduced. Also we believe that the timetable for expansion into non-electricity sectors needs to be brought forward to 2012.

Transport should not be excluded. While we acknowledge there is a community sensitive to petrol prices, we believe this concern is best addressed through a State’s initiative that will provide consideration to the value of fuel economy/greenhouse emissions standards.

Proposal : Penalty Level
EDL Position : Requires Effective Increase Framework

The civil penalty level should be incrementally changed over time, ideally matched to an increasingly stringent target which will reflect the increasing marginal cost of abatement. Such a penalty structure will ensure compliance throughout the period of the scheme.

Proposal : Nature of permits
EDL Position : In Support

We agree that:-

1. the annual permit is the most effective time period;
2. the permits be structured as secure property rights; and
3. the use of ‘banking’ is an effective measure and that ‘borrowing’ detracts from the likelihood and therefore benefits of scheme compliance.

Proposal : Permit Allocation
EDL Position : Disagree

We do not agree that permits should be allocated in a lump sum fashion to fossil fuel generators free of charge. However, should these provisions remain, we believe these permits should be limited in total quantity and date stamped such that this upfront allocation contains a mix of permits that would be confined to use in particular years and have no eligibility past 2020.

It is critical that an express exemption of liability be incorporated for generators of electricity that use greenhouse harming gases as a fuel source. Potential exclusions from the NETS liability include the:-

1. venting and flaring at oil and gas production and processing facilities;
2. emissions of methane from black coal mines;
3. methane and nitrous oxide emissions from waste facilities; and
4. emissions from transport fuel combustion.

These exclusions need to expressly extend to fugitive emissions from power generation that abates the harmful greenhouse gases that result from these activities.

We believe that at least 50% of the permits should be auctioned, with revenue used for a mix of purposes including covering the adverse impact of the structural adjustment and increased energy prices brought on by the emissions trading scheme, funding energy efficiency incentives and supporting the research and development of low emission energy technologies. Assistance for companies to shield them from competition in jurisdictions where greenhouse emissions remain uncosted needs to have a 'sunset' clause in the event a global regime that effectively prices carbon is put in place.

Proposal : Institutional arrangements
EDL Position : Agree

Ideally the Commonwealth would take ownership of this emissions trading proposal, but the implementation of this scheme should not be contingent on their involvement. There is an ever growing volume of research, the Stern Review included, that shows we need to take action now to price greenhouse emissions.

Implementation of emissions trading by 2010 is a sound and necessary government initiative. If the Commonwealth does not wish to be involved, the States should seek to find alternative institutional arrangements to make the scheme a functioning and effective reality.

We support the proposal for a central body responsible for advising on a range of ongoing policy issues surrounding the scheme and another body charged with being the regulator of the scheme. We have also recommended that a central statutory body be established to allocate funds from auctioning revenues to assist individuals adversely affected by the scheme, encourage energy efficiency and support development of low emission energy technologies, similar to the UK's Carbon Trust.

Proposal : Transition to NETS and Complimentary Measures
EDL Position : Agree

The GGAS is largely an attempt to price carbon. GGAS's success means it should be phased into the national emissions trading scheme - with inclusion for all offsets currently covered by GGAS. We advise and reiterate some of our earlier comments as follows:-

1. the use of international CERs should be limited;
2. the transition from existing schemes including GGAS should be as seamless as possible, with at least 15 years of NETS so as not to detract (but actually compliment) existing scheme's benefits, thereby underpinning the investment confidence of institutional investors and financiers in long term abatement projects - existing and new;
3. capital grants programs need to be continued and, where possible, widened. Current grant schemes are incentivising "RD&D", which is commendable for emerging technologies, but such projects face longer lead times than projects using existing abatement technologies. Capital grant schemes that support development of projects that use existing technologies are equally important in growing renewable generation to meet abatement targets;
4. other fiscal measures, such as tax credits/rebates, also need to be supported; and
5. state-based measures that will reserve the supply of domestic natural gas need to be supported - this will assist in developing a diesel displacement technology that has the potential to reduce greenhouse gas emissions by a large measure.

Renewable energy target schemes such as the MRET, VRET and now the NSW Renewable Energy Target need to continue in parallel with emissions trading. These schemes have objectives beyond abatement related to technology development and industry development. Abolition of these schemes would be a significant sovereign risk issue putting several hundred million dollars of investment at risk.

If there is concern that these market-based measures provide insufficient support for a broader suite of less mature technologies, then the schemes should be expanded and amended, not scrapped. The UK, for example, is considering altering the structure of their Renewables Obligation to encourage a broader suite of technologies. Any scheme needs to balance achieving the benefits from competition between technologies with the need to bring on new technologies whose promise may be great but which are immature and expensive.

We commend the Secretariat for the excellent work completed to date. Please do not hesitate to contact us should you require any clarification of the discussion outlined above.

Yours sincerely,

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