

16 November 2005

Mr Roger Wilkins
Chair
Emissions Trading Inter-jurisdictional Working Group
The Cabinet Office
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Dear Roger

A National Emissions Trading Scheme Background Paper for Stakeholder Consultation

I am writing to put forward Origin Energy's views on the Inter-jurisdictional Working Group on Emission Trading's Background Paper for Stakeholder Consultation released in September 2005.

Origin is actively involved in the development of energy infrastructure in Australia and we supply over 2.7 million customers throughout Australia, New Zealand and the near Pacific with a range of energy products and services. We believe that our integrated business provides a useful framework for a robust evaluation of the issues and we hope that our comments reflect the balanced views required of an energy company with retailing, generation, upstream and network interests.

As an investor across the energy sector, Origin wishes to emphasise that more regulatory certainty is required to enable investments in assets with long lives to be made. But prior to any decision on a future carbon constraint and the preferred policy instrument to apply the constraint, Origin suggests that a statement is required now from all COAG jurisdictions that no indemnity against a future carbon exposure will be provided to any new power plant or energy intensive facility to be built in Australia. Governments should consider such a policy as a no-regrets measure.

With respect to a broad based market mechanism, the following are required to reduce uncertainty for investors:

- A commitment from all COAG jurisdictions on the core principles to apply under a NETS or similar mechanism on initial allocation of tradeable rights to existing emitters and new entrants.
- A statement of principles for the transition arrangements from existing greenhouse schemes to a NETS or similar, to minimise sovereign risk issues including a clear and unambiguous commitment that the value of existing commodities (eg NGACs, GECs) will not be eroded in the transition process. This is a key design requirement because it is vital that investors make timely decisions based on market needs and not delay investments because regulatory uncertainty is so high as to paralyse decision-making processes.

Some commentators suggest that there is no immediate imperative to act now; however, Origin's position is that there is no downside to government giving these undertakings and there is significant upside as it provides clarity for investors.

Our positions on the key design propositions for a State and Territory National Emissions Trading Scheme (NETS) are summarised in the following:

- Origin supports a cap and trade emissions trading scheme, operated on a national basis.
- At a minimum, Origin believes that the NEM States must agree to the emissions trading scheme.
- Our preference is for a 2008 start date and although we support a fully comprehensive scheme for efficiency reasons, on pragmatic grounds we would support a phased approach, starting with the electricity generation sector, followed by the remainder of the stationary energy sector, then other sectors as appropriate.
- The initial cap from 2008-12 would be based on the current Kyoto 108% target (for example current AGO projection for 2010 for the stationary energy sector). Targets after 2012 should be based on an aspirational target (eg 60% reduction by 2050) with indicative interim milestones. A target for 2020 should be set prior to implementing the scheme to allow for better decision-making with respect to long lived assets.
- The National Emissions Trading Scheme should replace the current NSW GGAS and Qld 13% Gas Scheme but not MRET.
- With respect to the initial allocation of permits, Origin supports a mix of administrative allocation and auctioning and favours both annual and long term permits. The duration of long term permits should be related to the economic life of the asset.
- Although economic theory would favour full auctioning of permits, there is a need to recognise the impact on existing asset values. The principles driving administrative allocation should be to ease structural adjustment and a cushioning of the impact of the NETS; permit allocation provides a mechanism to transition to a carbon constrained world. Origin advocates that the administrative allocation should be based on equity compensation which will require economic modelling. For the electricity generation sector, this should be done plant by plant. We are not advocating an administrative allocation of permits equivalent to current or historic emissions but the minimum required to avoid equity losses on current assets.
- Origin also supports a similar allocation to affected parties (eg large industrial customers) as it is unlikely that the scheme will be linked initially to international markets and the allocation of permits will compensate for loss of international competitiveness. Origin prefers this approach rather than exemption for the trade exposed sector for a unilateral scheme.
- The remainder of the permits would then be auctioned - for both incumbents and new entrants.
- Origin does not support hypothecation of any auction revenues for greenhouse abatement activities as this would result in a "double dip" effect. Our preference is for the monies to be used in the reduction of taxes.
- Origin supports the use of offsets from non-covered sectors to increase the supply of permits.
- Origin supports a penalty that caps the NETS cost at a level slightly above the projected marginal cost of abatement for the Kyoto period and out to 2020.

I trust that our comments prove useful to your deliberations. Please do not hesitate to contact me in regard to these issues or alternatively Dr Lorraine Stephenson, National Manager Sustainability (07 3899 9472).

Yours faithfully



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