Wind Prospect Submission on the

Possible Design for a Greenhouse Gas Emissions Trading Scheme

To the: National Emissions Trading Taskforce

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Table of Contents

1. General

Wind Prospect agrees with the view that an emissions trading scheme must be part of the strategy for combating climate change in Australia, and we commend the State Governments for the production of this discussion paper.

We also agree that such a scheme is needed to be enacted as soon as possible to provide certainty to investors in many sectors, not least the stationary energy sector.

We note that there are predictions made in the discussion paper that the scheme will cause a major increase in renewable energy generation, which will be a significant part of the emissions abatement strategy. However we have major concerns that aspects of the proposed design of the scheme will, in reality, **not** give effect to these predictions and therefore undermine the emissions abatement strategy.

We offer the following comments on the Possible Design for a National Greenhouse Gas Emissions Trading Scheme (the Scheme).

2. Commonwealth Support

Given the latest moves by the Federal Government regarding emissions trading, it is likely that some sort of Commonwealth support will be directed towards emissions trading. However the nature and timing of that support, and what sort of scheme the Commonwealth will support, is yet to be determined.

Our concern is that the Federal Government's recently announced taskforce will only further delay any sort of action on emissions trading in Australia, and have it tailored primarily to cater to the needs of non-renewable low emission industries. We are also concerned that the detailed work already carried out by the National Emissions Trading Taskforce (NETT) will be ignored or duplicated.

We trust that the NETT and interested State Governments will lobby hard for a significant level of input into the Federal Government's Task Force process, to ensure continuity of approach and expedient introduction of an environmentally effective scheme.

There should also be a point where the NETT opt to carry on regardless of the Federal Government's Task Force process, if significant implementation delays are envisaged with a combined approach.

3. Permit, Penalty and Renewable Energy

Wind Prospect strongly agrees that a carbon price is required for deployment of new low emission technologies, and even existing technologies (with regards to renewables) in the absence of a renewed MRET.

We note that the NETT envisages that the Scheme will cause a growth in renewable energy installations of "over 400%" (pg 112). We also note that the predicted average electricity price under Scenarios 1 and 2 may rise to around $40/MWhr by 2015 (pg 96). This power price alone will not support new installations of renewable energy. Even when we add the permit value predicted for the scheme in 2015 of $19, the total price on offer still falls short of required prices for even the most economical renewable energy generation available today ie wind (excluding existing hydro). We also do not believe that wind generation prices will decrease substantially enough over this timeframe to make it work economically under this scheme – in fact wind power has actually increased in cost by up to 20% in the last 24 months due to unprecedented world-wide demand and a subsequent component supply shortage. With regards to new unproven renewable technologies, there is no guarantee that this price on offer will be able to be matched either. We strongly recommend the NETT get further pricing advice from AusWIND and other renewable energy industry bodies to help with further modelling,

Further, with current modelling results (and in the absence of a renewed MRET or other separate incentive for renewables) it would appear unlikely that much new renewable generation would be commissioned before 2020 under this Scheme (let alone a 400% increase) hence bringing no emissions abatement until then.

In summary, to ensure the predicted installation of renewable energy projects under the Scheme and thereby effect the emissions reductions desired, we believe the Scheme will need to: allow renewable generation to attract a permit value; have higher permit prices by maximising abatement targets, and; maximise the penalty price from the very start of the Scheme.

If the economic effects of inducing high permit prices or setting high penalty prices from the start will be unacceptable, then measures should be taken to strengthen existing complementary policy, such as MRET, or introduce new policy such as well designed feed-in tariff systems or the like. Alternatively, we would encourage the Scheme to *require* participating States to introduce complementary, effective market-based instruments (such as VRET, and the proposed NRET) to ensure that the deployment of renewable energy facilities are not solely reliant on a potentially under-priced NETS market.

4. Impacts to the Economy

We acknowledge a certain level of risk to trade exposed industries exists, but consideration should now also be given to risk of NOT having a Scheme. This is in light of reports that are starting to emerge with regards to discerning nations and corporations selectively trading only with partners who are participants in Kyoto or who have carbon credited goods.

We would support a certain level of grandfathering for these industries however, provided there are measurable efforts by these industries to reduce their emissions footprints.

5. Make-good Provision

We are of the opinion that a make-good provision should be included to ensure environmental integrity. The onus should be on participants to minimise risk of non-compliance by carefully predicting, calculating and reporting emissions.

6. Offsets

With regard to the use of Clean Development Mechanism (CDM) credits in the Scheme, we believe that transactions between Australia and international markets will be valuable in exposing our industries to international market participants and positioning us well for future full integration. It may be prudent to cap Certified Emission Reductions (CER) entry into the Scheme in a similar way to the EU ETS – where participants can surrender CER's up to a capped percentage of their Allowance Amounts (around 5-15%).

We note that it's intended to design offset rules which are consistent with the Joint Implementation (JI) system developing under the Kyoto Protocol. This makes sense with regards to preparations for future full integration with international markets, however it should be realised that the approved methodologies under CDM/JI are complex, and not necessarily in line with those proposed in the discussion paper. In particular, the NSW GGAS offset rules for forestry projects may not be in-line with the complex forestry methodology approved for use under CDM/JI. This discrepancy requires attention if Australian projects are going to fully participate in the JI scheme in the future.

If offset projects are to be in-line with the JI system, it should also be noted that JI projects can be verified in two different ways, known as Track 1 (where the host country carries out verification) or Track 2 (where the JI Supervisory Committee carries out the verification). Pending full entry into the Kyoto system, it is preferable for Australia to be eligible to carry out Track 1 verification, as it is simpler and less time consuming. The design of rules for offsets, then, should support a Track 1 system.

Although it is prudent to design offset rules in-line with JI, consideration should also be given to unique Australian offset opportunities, such as forestry projects using Australian native Eucalypts such as mallee species, which have significant below-ground carbon storage potential, which might not be catered for by JI methodologies. The mallee industry is developing around the country, providing a unique opportunity to deliver effective sequestration along with valuable landcare benefits in low rainfall areas where landcare and farm diversification is most needed. This important section of the forestry industry should be catered for in any forestry offset design.

We would also propose the Scheme consider integration with the Verified Emissions Reduction market (voluntary carbon market), where appropriate. This would allow an exchange of emissions reductions between Australia and other nations immediately, whilst we wait for the Federal Government's formal entry into Kyoto based markets.

7. Other

Any NETS legislation should have a measure of security that prevents existing or successive governments undermining it's integrity, which would in-turn undermine investor security and the environmental effectiveness of the scheme.

If there are any questions regarding this submission, please contact Doreen Marchesan at doreen.marchesan@windprospect.com.au.

Thank you.