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Climate Change Group
Department of the Prime Minister and Cabinet
PO Box 6500
CANBERRA ACT 2600

1 December 2007

Re: *Abatement Incentives Prior to the Commencement of the Emissions Trading Scheme*

Dear Sir/Madam

AGL Energy (AGL) welcomes the opportunity to provide a submission on the discussion paper *Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme*.

Please find enclosed AGL's submission. Should you require further information, please contact Tim Nelson, National Manager Carbon and Government Affairs on (02) 9921 2516 or by email at tanelson@agl.com.au.

Yours sincerely

Emily Kucukalic
Head of Brand and External Affairs

Executive Summary of Submission

- AGL is well placed to comment on emissions trading because of the diversity of our operations. We operate across the supply chain and have investments in energy retailing, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.
- AGL supports the emissions trading scheme regulator using verified emissions data from the first mandatory reporting period under the National Greenhouse and Energy Reporting System.
- AGL is not opposed to the definition of an asset 'in existence' being used in determining the cut of date for permit allocation where the asset was commercial in its own right and did not benefit from voluntary abatement markets or some form of mandatory obligation.
- All assets constructed since 1997 (the inception of the Kyoto Protocol – which was initially signed by the Commonwealth Government) that have met requirements under legislation to be phased out (e.g. NSW Greenhouse Gas Abatement Scheme) or a government program (e.g. Greenhouse Friendly) should be considered 'new assets'.
- AGL agrees that credits should only be provided for activities that represent abatement that has actually occurred, is additional (beyond business as usual), permanent, measurable and verifiable.
- AGL believes that there are two actions necessary for transitioning early action into credits in an emissions trading scheme:
 - Emission permits should be allocated for eligible abatement achieved between 3 June 2007 and the start of the abatement scheme; and
 - An upfront allocation of offset credits should be provided for abatement that will be permanently achieved over the lifetime of the scheme or project (whichever ends first) where a project is based in a non-covered sector.

AGL ENERGY SUBMISSION ON EARLY ABATEMENT INCENTIVES DISCUSSION PAPER

1. Introduction

AGL Energy (AGL) is Australia's leading energy company. AGL is well placed to comment on emissions trading because of the diversity of our operations. We operate across the supply chain and have investments in energy retailing, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction. The diversity of this portfolio has allowed AGL to develop a detailed understanding of the risks and opportunities presented by climate change policy and emissions trading.

AGL is Australia's largest retailer of gas and electricity with customers in New South Wales, Victoria, South Australia and Queensland. AGL has significant investments in upstream energy markets. We own and operate 645 MW of hydroelectric power generation assets, the 1280 MW Torrens Island gas-fired power station, the 150 MW Somerton gas-fired peaking power station and a number of landfill gas, biogas and biomass generation facilities. AGL also has a 32.5% equity investment in the Loy Yang A power station.

2. Climate Change Policy Overview

AGL recognises that climate change is a critical issue facing all countries. AGL accepts the scientific consensus that greenhouse gases in our atmosphere need to be stabilised at concentrations below 550 parts per million so as to avoid 'dangerous' climate change. Based upon this principle, AGL believes that policies should be developed internationally and nationally that place Australia on a pathway of reducing its greenhouse gas emissions in a way that is compatible with this objective.

3. Sources of Data

AGL supports the emissions trading scheme regulator using verified emissions data from the first mandatory reporting period under the National Greenhouse and Energy Reporting System. This data should be used as an input (but not the only input) into permit allocations. AGL does not support the mandated use of other data for determining permit allocation. Businesses that have had detailed reporting procedures for several years (such as AGL) should be able to use this information when discussing permit allocation with the scheme regulator prior to allocation being determined.

4. Definition of New Asset

AGL is not opposed to the definition of an asset 'in existence' being used in determining the cut of date for permit allocation where the asset was commercial in its own right and did not benefit from voluntary abatement markets or some form of mandatory obligation. All assets constructed since 1997 (the inception of the Kyoto Protocol – which was initially signed by the Commonwealth Government) that have met requirements under legislation to be phased out (e.g. NSW Greenhouse Gas Abatement Scheme) or a government program (e.g. Greenhouse Friendly) should be considered 'new assets'. If these assets are not recognised as new assets, owners will be left without the necessary commercial return on investments made in good faith. This would introduce significant sovereign risk and undermine future investment in abatement activities.

Specifically, AGL currently owns and operates a range of landfill gas flaring and generation facilities. These facilities are able to create NSW Greenhouse Gas Abatement Certificates or Greenhouse Friendly certificates for abatement achieved through the destruction of methane from landfill. AGL is not seeking to have abatement already achieved (e.g. tonnes of greenhouse gases abated prior to 3 June 2007) converted into emission permits/offset credits in the proposed emissions trading scheme. However, given that the action taken by AGL in constructing the asset significantly reduced emissions on a permanent basis, recognition for abatement achieved after 3 June 2007 should be recognised.

For example, if emissions at a landfill facility would have been 10 tonnes in the first year of the emissions trading scheme (i.e. 2011) but action taken by AGL in 2001 reduced annual emissions on a permanent basis by 4 tonnes, AGL should be entitled to receive 4 offset credits¹ (if waste is declared a 'non-covered' sector) for each year of the scheme. If waste is included in as a 'covered sector', the allocation of permits should reflect the original 10 tonne per year baseline.

5. Additional, Permanent, Measurable and Verifiable Abatement

AGL agrees that credits should only be provided for activities that represent abatement that has actually occurred, is additional (beyond business as usual), permanent, measurable and verifiable.

6. Early Action Credits

AGL supports the creation of early action or offset credits for abatement from eligible projects (please note AGL's views on the definition of a 'new asset' above) for abatement after 3 June 2007. However, abatement recognised during the period between 3 June 2007 and the commencement date of the scheme should not be able to be used to create both early action credits and other instruments which are surrendered for value during this period (e.g. NSW Greenhouse Gas Abatement Certificates).

For the purposes of permit allocation / offset creation, AGL believes that activities which permanently reduce emissions (e.g. a landfill waste flaring project) should receive an upfront allocation of permits/offset credits to reflect the ongoing permanent reduction achieved over the life of the scheme or project (whichever ends first). The distinction between the allocation of permits or offset credits would be determined once sectoral coverage is finalised (AGL understands that offset credits would essentially become emission permits once the scheme is operational).

For example, assuming the same landfill facility as introduced in section 4, abatement achieved between 3 June 2007 and the commencement of the scheme would be eligible to create offset credits or NSW Greenhouse Gas Abatement Certificates (or equivalent). In addition to these early action credits, the landfill operator would also be entitled to receive emission permits for each year of the scheme as an upfront allocation. This allocation should be based on the original 10 tonne per year baseline. This would ensure that the project operator / investor is not disadvantaged from taking early action.

7. Administration and Use of the Greenhouse Friendly Scheme

AGL supports the use of the Greenhouse Friendly scheme as an administrative mechanism for approving offsets and early action credits for use in the emissions trading scheme. AGL supports the development of protocols for eligible early action and offset projects. The principles identified in section 4 and 6 of this submission provide an overview of the principles that should be used to guide development of these protocols. AGL supports the development of a national offset register to track early action credits and offsets that could be recognised under the emissions trading scheme. AGL seeks further consultation regarding the development of administration arrangements around the registration of abatement under the emissions trading scheme.

8. Transitioning Early Action Credits into an Emissions Trading Scheme

AGL believes that there are two actions necessary for transitioning early action into credits in an emissions trading scheme:

- Emission permits should be allocated for eligible abatement achieved between 3 June 2007 and the start of the abatement scheme.

¹ AGL assumes that 'offset credits' are the same instrument as an emission permit (i.e. the holder is entitled to emit 1 tonne of carbon dioxide equivalent).

- An upfront allocation of permits should be provided for abatement that will be permanently achieved over the lifetime of the scheme or project (whichever ends first).

AGL agrees that the overall cap should be adjusted to account for this permit allocation. For example, if a range of 'non covered' sectoral abatement is converted into emission permits, the cap would need to be reduced if overall abatement in the 'covered' sectors is to be achieved.