



**Submission to the Climate Change Group  
Department of Prime Minister and Cabinet**

Abatement Incentives Prior to the Commencement of the  
Australian Emissions Trading Scheme

**December 2007**

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## **Introduction**

The Energy Users' Association of Australia (EUAA) welcomes the opportunity to provide a submission on the Early Abatement Incentives Discussion Paper. The release of the Discussion Paper represents the first step in the detailed design of emissions trading, and one which is important to our members.

The EUAA is a non-profit organisation focused entirely on energy issues. Members determine the EUAA's policy and direction; and our activities cover both national and state issues. The membership represents a wide spectrum of end users located in all states. Currently, the EUAA has nearly 90 members, which are predominantly large business users of energy with activities across all states and many sectors of the economy.

As the majority of EUAA members have significant annual energy spends, they have a significant interest in regulatory developments associated with policy approaches that seek to establish a price for carbon, including an Australian Emissions Trading Scheme (AETS). The Prime Ministerial Task Group on Emissions Trading, established by the former Government, outlined that under an AETS, subject to further consideration at the detailed design phase, the direct liability for the acquittal of emission permits should be imposed at an emission threshold level that would implicate the top 900 emitters in Australia. This indicates that, in addition to price impacts that would fall on all end users, the majority of EUAA members will have a direct obligation under the scheme, and therefore, have a significant interest in its development.

This submission raises a number of concerns that the EUAA has with the proposed recognition of abatement activity and projects from 3 June 2007, and the need to ensure that the approval process for early action offset activities be set in a manner that minimises the administrative and transaction costs incurred by firms. The EUAA also emphasizes in this submission the importance of extensive consultation on design issues with end users going forward, including the definition of TEEIs planned for 2008.

### **1. Consultation, Maintaining Competitive Australian Energy Intensive Industry and the Implementation Task**

The EUAA views it important that the Prime Ministerial Task Group on Emissions Trading acknowledged the need to maintain Australia's competitive advantage in energy intensive industry as a principle-level design for an emissions trading scheme. Beyond the principle, the details and rules will be a key determinant of how energy end users will be impacted. As outlined by the Climate Change Group in a public forum on emissions trading in August 2007, the processes for detailed design and consultation to enable the commencement of emissions trading by 2011 includes key issues, such as the definition of trade exposed and energy intensive industry, permit allocation methodology, modeling of the economic impacts of emission reduction targets, scheme governance and administration, drafting of a legislative package and scheme regulator. This represents a very ambitious timeframe for development and consultation, and the EUAA would not like to see it compressed any further. To do so could undermine any prospect of effective consultation with energy users,

who are parties most affected by the introduction of the scheme. It could also mean that undue haste is applied in development of what is, after all, inevitably a complex scheme that requires careful and detailed consideration to ensure it has good foundations. Hasty implementation also raises the risk that an inferior scheme is established and the scheme would need to be significantly altered post introduction, with consequent disruption, uncertainty and costs. In our view, it is better to be realistic about the time needed for implementation of a sound scheme.

## **2. Recognising Prior Abatement Actions – From 3 June 2007**

The recognition of activities and investments to reduce emissions prior to the start of an emissions trading scheme is important as, in the absence of such measures, abatement may be postponed until after scheme start. Opportunities for earlier abatement could therefore be lost, as well as, vital ‘learning by doing’ abatement experience. The discussion paper proposes that abatement activity and investments in low emission technology undertaken after 3 June 2007 will be taken into account when issuing permits, although firms do not at this stage know whether they are eligible for upfront, once off free permits or continuing free permits.<sup>1</sup>

It is understood that the determination of the 3 June 2007 as the relevant date for the application of the ‘no disadvantage’ principle coincides with the date at which the former Federal Government indicated a commitment to introduce emissions trading. On 3 June 2007, the then Prime Minister stated that “firms which undertake abatement between now and the start of emissions trading will not be disadvantaged.”

The EUAA considers that the application of a strict date of 3 June 2007 is arbitrary and inequitable, particularly for businesses that have been proactive about reducing the carbon intensity of their operations and have undertaken abatement actions earlier than this. This includes abatement activities that go beyond ‘business-as-usual’ conditions, and involve upfront capital implementation risks and costs. EUAA members have indicated they believe it is important that voluntary corporate efforts to reduce emissions be recognised in determining emission baselines to inform permit allocations. The setting of a date that ties early abatement action to the former Prime Minister’s announcement also penalises those who have ‘done the right thing, and voluntarily undertaken abatement, including those who joined the Greenhouse Challenge program and rewards those who have not done so. Arguably, some of these people have also undertaken action in the expectation that it would receive credit under a future emissions trading scheme. It seems to us that, even if measurement may not have been absolutely precise and consistent, members of Greenhouse

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<sup>1</sup> The report of the Prime Ministerial Task Group on Emissions Trading outlines a broad approach to permit allocation involving a once off, free allocation to businesses that incur a disproportionate cost (that is, above the economy wide average loss) and continuing free allocations to trade-exposed, energy intensive industries until international competitors face comparable carbon constraints.

Challenge or those who can demonstrate the use of robust measurement techniques, should receive recognition for early actions.

### **3. Informing Emissions Baselines**

The Discussion Paper proposes that baseline emissions data from the date at which the no disadvantage principle applies (currently proposed as 3 June 2007) would provide the basis for the allocation of permits associated with early abatement. However, as verified emissions data will not be available until the first mandatory emissions reporting period commencing 2008/09 financial year as enforced by the National Greenhouse and Energy Reporting System (NGERS), an alternative approach to determining baseline emissions is required.

It is proposed the baseline be established from a composite measure of verified emissions data from first reporting period under the NGERS (2008/09) and verified abatement data from the 2007/08 financial year. It is proposed that the scheme regulator would have access to other sources of emissions data (such as from other energy reporting programs) if emissions appear abnormally high. Based on the schemes that EUAA members have obligations under, the EUAA considers that relevant sources could include reporting under the Federal Energy Efficiency Opportunities (EEO) program, NSW Greenhouse Gas Abatement Scheme and Energy Savings Plans, and Victorian Industry Greenhouse Program.

### **4. Compensation for Assets Incurring a Disproportionate Loss**

It is proposed that only assets in existence as at the date from which the principle of no disadvantage applies will be eligible for compensation. The definition of 'assets in existence' is proposed to be taken as the definition of a 'committed asset' within the National Electricity Market, that is:

- "The project proponent has acquired, or has commenced legal proceedings to acquire land for the construction of the project.
- Contracts for the supply and construction of the project's major plant or equipment (including generators, turbines, boilers, transmission towers and conductors), including provision for project cancellation payments, have been executed.
- The project proponent has obtained all required planning and construction approvals and licences, including completed and approved environmental impact statements (these include planning and environmental approvals from duly authorised planning bodies at both State and Federal Government levels).
- Financing arrangements for the proposal, including debt plans, have been finalised and contracts executed.

- Construction has either commenced or a firm date has been set for it to commence.”<sup>2</sup>

The EUAA notes that NEMMCO has developed the definition of a committed asset and other definitions of project status based to ensure a consistent approach to forecasting the impact of any project on the NEM operations. The criteria for assessing committed projects therefore relates to the development of the NEM, rather than assessing projects with a financial benefit. The EUAA considers it worthwhile that some consideration be given the principles of the criteria that should be applied in assessing committed assets.

## **5. Offset credits**

It is proposed that any abatement activity that is assessed as additional, permanent, measurable and verifiable, be eligible to be recognised as an offset credit for the future emissions trading scheme, regardless of whether they are from sectors that are covered or not under emissions trading scheme.<sup>3</sup>

With the commencement of AETS, it is proposed that arrangements would change to ensure that credits generated from covered sectors known as ‘early action credits’ are not double counted, whilst abatement in non-covered sectors, known as ‘offset credits’, can continue to be generated post scheme start. Early action credits could be fungible with emission permits that are time dated for use in the first year of the scheme. Thus, abatement associated with early action credits would act to reduce permit liability.

To facilitate the generation of early action credits, the EUAA considers it important that the approval process for early action offset activities be set with regard to administrative and transaction costs incurred by firms in gaining approval. The need to minimise transaction costs is particularly important given the limited time in which credits can be generated before emissions trading commences. Based on their experiences with the NSW Greenhouse Abatement Scheme (GGAS), EUAA members have reported that entry and compliance requirements have been so onerous and costly such that it acts as a deterrent to project implementation.

## **6. Approval of Offsets**

The Discussion Paper proposes that the Australian Government’s Greenhouse Friendly provide the existing standard for approving offset credits. However, Greenhouse Friendly does not have established criteria or protocols for abatement activities that will be eligible for early action credits. As such, it is proposed that priority be given to developing protocols for abatement activities that can commence quickly, deliver significant abatement and demonstrate clear additionality. Some examples provided include methane capture

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<sup>2</sup> NEMMCO 2006, *Statement of Opportunities for the National Electricity Market*, October, p1-9.

<sup>3</sup> Under the AETS as outlined by the Prime Ministerial Task Group on Emissions Trading, covered sectors are those that would be required to participate in trading (all sectors apart from agriculture, forestry and land use). Emissions from agriculture, forestry and land use are referred to as ‘un-covered’ sectors until such a time that emissions measurement becomes practicable. Abatement from emissions from un-covered sectors will be eligible for offsets.

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and destruction, energy efficiency projects with longer pay back periods, step change electricity generation technologies and waste methane projects. Further comment is sought on activities for which protocols could be developed as a priority.

As a developing area, the EUAA will continue to seek feedback with our members on protocols requiring priority, and will advise on any that we are notified of.

It is proposed that participants in the voluntary market would be allowed to generate early action credits and offsets credited for use in the AETS. A national offset register is proposed to be established to provide a means of tracking use and ownership of offsets.

The Discussion Paper notes that the introduction of any offset regime to complement emissions trading needs to ensure that the environmental integrity of scheme is maintained, via mechanisms that ensure that offsets meet strong additionality, permanence and measurement criteria, and that baseline and monitoring methodologies are robust. The EUAA is supportive of these principles in the further development of an offset regime.