



Legislative Assembly

Electricity Supply Amendment (Greenhouse Gas Emission Reduction) Bill Hansard

Extract

31/10/2002

Second Reading

Mr YEADON (Granville—Minister for Information Technology, Minister for Energy, Minister for Forestry, and Minister for Western Sydney) [5.10 p.m.]: I move:

That this bill be now read a second time.

The Carr Government is proud of its efforts on greenhouse, and I am extremely proud to be introducing this bill. We have recognised that we need to play our part in protecting the Earth for our children, and generations to come. However, in protecting the environment we recognise that we need to work with business to deliver environmentally sustainable industry in an innovative and cost-effective way. That is precisely what the Electricity Supply (Greenhouse Gas Emission Reduction) Amendment Bill is all about. It is an important part of the Carr Government's suite of greenhouse abatement initiatives—initiatives that fill the vacuum left by the Howard Government.

Greenhouse is a global issue, and yet the Prime Minister refuses to join the global response to this global problem—namely, the Kyoto protocol. Last year the Intergovernmental Panel on Climate Change released its third five-yearly assessment of the science of climate change. It found increasing evidence that human activity is already altering the global climate system and projected that the rate of warming over the next hundred years is "very likely to be without precedent during at least the last ten thousand years".

The New South Wales Government recognises that something needs to be done. But we also recognise that whatever is done needs to be done in co-operation with industry as well as the community. What we have here is one of the first non-voluntary greenhouse trading schemes. For five years we went down the voluntary route. It did not work. We did not achieve our target of a 5 per cent reduction in per capita emissions on 1989-90 levels. What was achieved was a 10 per cent increase in per capita emissions.

However, this scheme is outcome focused—it will achieve the target. What we have set out to do is develop a scheme that does not rely on just taxing people. Instead what we want to do is encourage people to behave in an environmentally responsible way. We have argued for several years that the most equitable and economically efficient means of addressing greenhouse gas emissions is through a national emissions trading scheme—a scheme that sees uniformity in rules, and sees all Australian emitters taking responsibility for their emissions. So rather than just sit back and complain about the lack of leadership at the national level, the New South Wales Government has moved forward with this scheme for the electricity industry.

Electricity generation is the largest source of Australia's greenhouse gas emissions, accounting for 33 per cent of net emissions in 2000. The emissions are also growing rapidly, and in 2000 were 36 per cent higher than they were in 1990. Clearly, the problem is getting significantly worse. While recognising that electricity is only part of the problem, the Carr Government considers that the electricity sector offers significant opportunities for abatement as it represents both the largest and one of the fastest growing producers of greenhouse gas emissions.

That is where the Electricity Supply (Greenhouse Gas Emission Reduction) Amendment Bill comes in. It is yet another piece of world-leading legislation. In 1999 we introduced what we believe to be the world's first legislation recognising carbon rights. Since then most States, and a number of other countries, have followed our lead with similar legislation. Why have they followed New South Wales? Because we have looked for the opportunities—opportunities that the Howard Government is intent on stifling by not ratifying the Kyoto protocol. This legislation builds on existing initiatives.

This policy focuses on getting greenhouse gas reductions; it is not an industry support policy, as is the Commonwealth schemes. The bill amends the Electricity Supply Act 1995 in order to provide the legislative foundations to encourage the reduction of greenhouse gas emissions, emissions associated with the production and use of electricity, and to encourage participation in activities to offset the production of greenhouse gases. It creates market incentives to encourage more greenhouse friendly generation. Importantly, it allows the market to manage its structure and approach to address the obligations. It provides a challenge to the market which has often said, "Let us manage". Well, here is the challenge.

I now turn to the detail of the bill. The Electricity Supply (Greenhouse Gas Emission Reduction) Amendment Bill amends the Electricity Supply Act 1995 and provides legislative foundations to encourage two important outcomes: firstly, the reduction of greenhouse gas emissions associated with the production and use of electricity;

and, secondly, the development and encouragement of activities to offset the production of greenhouse gas emissions. The bill will achieve these key outcomes by four interrelated initiatives. Firstly, we establish a statewide greenhouse gas reduction target. Individual retailers and large consumers in the electricity industry are each allocated a slice of the required abatement task, according to how much they contribute to the problem.

Secondly, we establish a penalty regime to ensure retailers and large customers would prefer to take actions to reduce greenhouse gases rather than incur a fine for not meeting their environmental obligations. Thirdly, we establish a scheme that gives legal ownership of the greenhouse reductions, reductions achieved by various options retailers and customers have invested in. Essentially, this means that the certificates create a form of property right. Fourthly, we allow the owners of these options to trade them so they can earn revenue to cover their costs and earn a reasonable return.

The challenge the Government has set industry is the same one that it has had for the past five years. Industry must reduce greenhouse gas to 7.27 tonnes per capita, which is 5 per cent below the level in 1989-90. We have re-set the timetable so that this target must be achieved by 2007. To ensure the Government sees continual progress towards this end target, we have also set progressively tighter targets year-on-year leading to the final 2007 level. Thereafter, industry will have to maintain the 7.27 tonne level until at least 2012. If, however, the Kyoto protocol is implemented the New South Wales scheme will need to be reviewed.

There will also need to be a review of any schemes introduced in other States to ensure that there is not duplication. The Government wants all New South Wales customers, big and small, to contribute to improving the environment. That is why the bill ensures all electricity customers in New South Wales will be part of the scheme. Ninety-eight per cent of customers, which includes all householders and most small to medium size businesses, are already paying about \$1.50 per megawatt hour to their retailer as part of their contribution to reducing greenhouse gases. This means that the electricity bills of the vast majority of customers will not go up following the introduction of this initiative.

The Government will also ensure that where customers have already chosen to pay a premium for Green Power, this will be over and above the benchmark. This means that Green Power customers will not be subsidising their retailer to meet their slice of the benchmark. The scheme will also not allow efficiency gains from coal generators that come about from January 2003, through funding from the Commonwealth's G-GAP initiative to be counted. The Government recognises that large customers, who currently are not part of the existing arrangements, will be affected by the new scheme.

To reduce the impact of this scheme on large electricity customers, the Government has developed a complementary set of arrangements for those customers. Essentially, this allows large customers to choose between purchasing abatement from the electricity sector or reducing greenhouse gas emissions from their own processors and their own plant. Allowing large users to create these non-electricity certificates not only ensures real greenhouse gas abatement occurs, it also helps them reduce the costs of doing their fair share of abatement.

Large users will be able to split their target so that they are able to create these large user abatement certificates for part of their electricity use, while leaving the remainder with their electricity supplier to manage in the normal way. However, the bill does not allow large users to trade the abatement achieved from their own plant. These large user certificates can only be created by facilities located within New South Wales—that is, those sites subject to the legislation. This is all about keeping the costs down while achieving real emission reductions.

The scheme has been carefully designed to encourage the development of a vibrant environmental services market in New South Wales. The very fact that participants will now face a penalty for not taking action to reduce greenhouse gases will stimulate an unprecedented demand for new and innovative environmental options to reduce greenhouse gases. This scheme is unique in that it embraces a wide range of environmental options and the focus is on the environmental outcomes. This is not about picking winners. We let the market pick its own winners.

A key change to the existing arrangement is the recognition of interstate generators. This approach keeps costs down for two reasons. Firstly, it maximizes the available supply of options and, secondly, it provides access to numerous sources of existing and underutilised plant. Another key part of the scheme is the ability to count carbon offsets such as sequestration in forests. These will be limited to forests located within New South Wales. We have also spent a considerable amount of time looking at efficient administration of the scheme. A range of administrative functions need to be carried out to facilitate compliance and the proper functioning of the scheme. These functions can be categorised as either regulatory functions or administrative functions.

The regulatory functions are to be carried out by the Independent Pricing and Regulatory Tribunal, with the more day-to-day administrative functions carried out by a scheme administrator. Initially, the tribunal will be the scheme administrator, but the bill provides for other people to take on this role at any time. The Government is keen to see this role carried out in the most efficient and effective way. Efficiency will be promoted by the operation of a liquid trading market, for which we will depend on the private sector. The tribunal determines whether participants have complied with their slice of the benchmark, and imposes penalties on those who do not. The tribunal has been given strong powers to audit compliance with the scheme and it must regularly report to the Minister.

The tribunal also has a crucial role in establishing the abatement task and how this will be split between each participant. It can also recommend that the Minister amend regulations to improve the scheme. The scheme administrator has the more mechanical functions, involving accrediting certificate creators, registering certificates, monitoring and verifying the validity of the certificates. In this regard the Government has left the development of trading schemes to the private sector, which is well placed to develop effective, low-cost trading platforms. The

Government also encourages the private sector to develop a wide array of financial trading products around the abatement certificates.

The bill contains a number of other initiatives to keep the costs low. For example, the scheme includes provisions for banking and borrowing of certificates. Banking occurs when a participant has overcomplied early in the life of the scheme. In this case overachievers are rewarded by allowing them to bank any surplus certificates so that they can be redeemed at a later stage. Banking is good for the environment because it does not discourage people from early reduction in greenhouse gases. It also promotes low-cost abatement because people can take advantage of the economies of larger scale schemes.

The bill does not place a limit on how long surplus certificates can be banked. Borrowing, on the other hand, occurs when retailers fail to fully meet their target in a particular year. In this case retailers are allowed a shortfall of up to 10 per cent of their target for that year. This shortfall must then be made up in the following year. There are no shortfalls allowed in 2007, so the final target must be met. The borrowing provision is designed to provide flexibility in the scheme and explicitly recognises that the environmental outcomes of new technologies may be uncertain. In this regard the borrowing provisions encourage people to explore more innovative abatement options, which, in turn, will ultimately lower the cost of reducing greenhouse gases.

The New South Wales Government has always been keen to encourage responsible use of electricity. Reducing electricity demand is obviously an effective way of reducing greenhouse gases. To date it has been difficult to encourage retailers, who make money out of selling electricity, to offer their customers ways of using electricity more wisely. This scheme changes this incentive. We believe that one of the cheapest ways of reducing greenhouse gases is to encourage customers to reduce their electricity demand. But one of the difficulties faced by retailers in such a scheme is the administrative cost associated with dealing with a large number of small, individual sources of abatement.

In an attempt to overcome this problem the Government intends to make provision for several years worth of abatement created by demand side activities to be counted upfront. These provisions will be made in the rules and regulations. For example, if an investment is made in energy-efficient lighting in a building, this could result in reduced electricity consumption for the next five years. All five years worth of abatement could be claimed upfront. This approach has several advantages. For example, this initiative would reduce the administrative costs associated with claiming small amounts of abatement in every year, making demand management options more attractive.

Ultimately this will encourage retailers to do what they have not done—get their customers to reduce electricity demand. The Government is not keen to have participants paying penalties. We would prefer to have the achievement of our greenhouse gas reduction target. The key will be the level of the penalty in relation to the costs of greenhouse gas abatement. The bill includes a penalty of \$10.50 per tonne. It is important to index this to maintain this level in real terms, otherwise there is a risk that, over time, participants would prefer to pay the penalty rather than reduce greenhouse gases. Although the penalty will not be tax deductible, the cost of buying abatement certificates will be. This has been taken into account in setting the level of the penalty. With the given penalty, participants could afford to spend up to \$15 in real terms on an abatement certificate and still be better off than they would be if they paid the penalty.

The Government's main aim is to ensure that there is a real reduction in greenhouse gas emissions. This is why it is extremely important to ensure that we know that any abatement claimed really occurred. To do this, the bill includes strong powers for the tribunal and scheme administrator to audit the legitimacy of the certificates created, and whether benchmark participants have purchased enough of them. If, after carrying out these audits, it is found that certificates have been created without any real abatement occurring, large penalties will apply. There is also a make-good provision, which means that the party that created the bad certificate will be required to surrender an equivalent number of certificates. If 100 bad certificates were created, the creator is forced to take 100 certificates back out of the system.

This liability falls on the creator of the certificate, not the purchaser. If the creator is unable to make good, the bill includes an ability to gain access to financial assurances. This financial assurance is lodged at the time of certificate creation, and will be used to fund the purchase of any certificates to make good any certificates later found to be invalid. The creator's obligation to lodge a financial assurance will cease after the completion of all the audits, assuming no problems are discovered. Many details are to be finalised in the rules and regulations supporting the bill. These are being developed through a very detailed and comprehensive consultation exercise with stakeholders, including industry. Drafts of many of these rules and regulations have already been circulated and consulted on. I commend the bill to the House.