23 February 2009

Dr Michael Keating AC
Chairman
Review of NSW’s Climate Change Mitigation Measures
Independent Pricing and Regulatory Tribunal
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(via e-mail to: climatechange@ipart.nsw.gov.au)

Dear Dr Keating AC

RE: REVIEW OF NSW CLIMATE CHANGE MITIGATION MEASURES: APPEA COMMENTS

The attached submission is provided by the Australian Petroleum Production & Exploration Association (APPEA) on aspects of the Independent Pricing and Regulatory Tribunal’s Issues Paper Review of NSW climate change mitigation measures.

APPEA represents the collective interest of the upstream oil and gas industry in Australia. APPEA member companies produce around 98 per cent of Australia’s oil and gas. Further details on APPEA and its members and on the industry in Australia can be found at www.appea.com.au.

A number of APPEA members have made individual submissions to you commenting on the issues under consideration by the Review. APPEA commends these submissions to you.

APPEA would welcome the opportunity to discuss our submission with you at any stage. If you have any queries, please contact Mr Damian Dwyer, Director – Energy Markets & Climate Change on 6267 0902 or via e-mail at ddywer@appea.com.au.

Yours sincerely

Belinda Robinson
CHIEF EXECUTIVE

Enc.
REVIEW OF NSW CLIMATE CHANGE MITIGATION MEASURES

OTHER INDUSTRIES - ISSUES PAPER, DECEMBER 2008

APPEA Comments
FEBRUARY 2009
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1. **INTRODUCTION**

The Australian Petroleum Production & Exploration Association (APPEA) represents the collective interest of the upstream oil and gas industry in Australia. APPEA member companies produce around 98 per cent of Australia’s oil and gas. Further details on APPEA and its members and on the industry in Australia can be found at [www.appea.com.au](http://www.appea.com.au).

APPEA has been heavily engaged in the greenhouse policy debate since its inception and has taken a deep interest in the development of Australia’s greenhouse policy response. APPEA welcomes the opportunity to provide comment on the Independent Pricing and Regulatory Tribunal (IPART) Issues Paper on the Review of NSW climate change mitigation measures.

A number of APPEA members have made individual submissions to you commenting on the issues under consideration by the Review. APPEA commends these submissions to you.

2. **PRINCIPLES TO ASSESS EXISTING CLIMATE CHANGE MITIGATION MEASURES AND A CHECKLIST TO APPLY THESE PRINCIPLES**

2.1 **Design principles for climate change mitigation measures**

Many possible criteria may be used to assess climate change mitigation measures, including their environmental effectiveness, cost effectiveness, administrative and political feasibility, distribution considerations, government revenues, wider economic effects and effects on technical progress.

In the context of the Review, a key issue, and one that sets the Review apart from previous, similar, reviews is that this Review is to consider measures not just on their own merit, but in terms of whether such measures are efficient, effective, appropriate and complementary to Australia’s central climate change mitigation measure, a domestic emissions trading scheme.

While this changes, to an extent, the exact nature of the ‘benchmarks’ against which measures are assessed, it does not change the basic principles of climate change mitigation measure design.

2.1.1 **Putting these principles into practice: “good regulatory process”**

With this in mind, APPEA notes the release on 29 November 2008 of the Council of Australian Governments (COAG) Principles for Jurisdictions to Review and Streamline their Existing Climate Change Mitigation Measures¹. The four principles endorsed by COAG require that the measures:

are targeted at a market failure that is not expected to be adequately addressed by the Carbon Pollution Reduction Scheme or that impinges on its effectiveness in driving emissions reductions

- very importantly, complementary measures should adhere to the principles of efficiency, effectiveness, equity and administrative simplicity;

should be tightly targeted to the market failure identified in the above criteria that are amenable to government intervention;

may also be targeted to manage the impacts of the Carbon Pollution Reduction Scheme on particular sectors of the economy (for example, to address equity or regional development concerns); and

should generally be implemented by the level of government that is best able to deliver the measure.

APPEA recommends the Review adopt and rigorously apply these principles to existing and proposed climate change mitigation measures in New South Wales.

The application of these principles and processes should seek to answer the following questions:

- following the introduction of an emissions trading scheme, is there a clear market failure (consistent with the definition outlined in Section 2.1 above) that warrants government involvement?

- are there significant costs if nothing is done, and do they exceed the costs of government intervention?

- is a business program – in the form of a climate change mitigation measure – the only, or the best, way to address the problem?

Only if, in the presence of an emissions trading scheme, the answer to all three of these questions is ‘yes’, should the measure be considered for retention.

In this context, APPEA agrees with IPART’s view, expressed on page 4 of the Issues Paper, that the threshold for justifying additional measures should be set at a high level. APPEA also agrees that amending the emissions trading scheme – provided there is regard to existing property rights, and transparent timeframes – to address any deficiencies is preferred to implementing an additional measure.

3. AN EFFECTIVE POLICY RESPONSE: ADDITIONAL MEASURES AND POLICY RATIONALISATION

3.1 Climate change mitigation measures

Consistent with the Review’s focus on developing a framework to guide the NSW Government’s decision-making on the need for, and design of, climate change
mitigation measures to support the emissions trading scheme and using this framework to assess the specific climate change mitigation measures nominated by the New South Wales Government, and make recommendations about continuing, re-designing or terminating these measures, this section considers those policies or programs that might pass the threshold tests outlined above.

Perhaps even more importantly, it also considers whether a national emissions trading scheme creates the potential for significantly rationalising existing greenhouse policy response measures in New South Wales.

3.2 The need to rationalise existing climate change mitigation measures: general comments

The growth of separate Australian Government and State and Territory Government measures and their lack of consistency are increasing costs and uncertainty for Australian industry, including the upstream oil and gas industry. This cost and uncertainty and the associated sovereign risk, misallocation of resources and deadweight loss to the economy associated with the hotchpotch of climate change mitigation measures in Australia is significant and is growing. A single, nationally coordinated approach by all Australian governments is urgently required. In particular, State governments should not introduce policies and mechanisms inconsistent with a national approach. The COAG Principles announced in November 2008 are an important step forward. It is now vital that the IPART review and NSW Government response contribute to the development of this national approach.

The introduction of an emissions trading scheme must be accompanied by a significant rationalisation of climate change mitigation measures across all Australian jurisdictions, including in New South Wales. Every existing measure should be subjected to a rigorous assessment against the principles and processes recommended in Section 2 and only those measures that can definitively demonstrate their net benefits should be considered. Under no circumstances should an emissions trading scheme merely be added to the hotchpotch of existing measures.

An important case in point is the Australian Government’s commitment to the introduction of a national and significantly expanded national Renewable Energy Target (RET) scheme, to require 20 per cent of electricity to be sourced from renewable sources by 2020. The Australian Government has also announced it will consider phasing down the scheme between 2020 and 2030.

APPEA notes the RET and all state-based renewable energy target schemes fail the COAG Principles.

As part of its desire to ensure that the climate change mitigation measures to be developed and implemented in Australia in coming years, particularly the emissions trading scheme due to commence in 2010, achieves its greenhouse gas

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emissions abatement objectives at least cost to the Australian economy and society, APPEA has taken particular interest in the design of measures that seek to ‘complement’ an emissions trading scheme. APPEA commissioned respected economic consultants, CRA International (CRAI), to examine the costs associated with the proposal to adopt a RET of 20 per cent of electricity generation from renewable sources by 2020. A copy of the CRAI report can be found at Attachment 1.

The analysis shows that the combination of an emissions trading scheme with a 20 per cent RET is significantly less efficient than an emissions trading scheme in achieving a given level of emissions abatement. This finding was supported by both Garnaut Climate Change Review and the Productivity Commission.

APPEA acknowledges that in announcing an expanded RET, the Government is responding to a genuine community concern to take action on climate change and a desire to encourage renewable energy. However, APPEA believes there are more efficient and effective ways to encourage renewable energy.

### 3.3 Specific comments on New South Wales climate change mitigation measures

In addition to the general comments outlined above, APPEA has specific comments on aspects of the New South Wales climate change mitigation measures most relevant to the upstream oil and gas industry that are nominated for review in Section 5 of the Issues Paper. These measures comprise:

- the Greenhouse Gas Reduction Scheme;
- the Climate Change Fund;
- the New South Wales Energy Efficiency Strategy; and
- gas and electricity licence conditions.

#### 3.3.1 Greenhouse Gas Reduction Scheme

Once the domestic emissions trading scheme is in place at the national level, there is no justification, with reference to the COAG Principles, for the continuation of the Greenhouse Gas Reduction Scheme (GGAS).

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APPEA therefore supports the view already expressed by the New South Wales Government, that GGAS be terminated (with appropriate transition measures to account for the property rights already created under the scheme).

3.3.2 Climate Change Fund

The measures proposed under the Climate Change Fund fall into two broad categories:

1. measures that appear to duplicate the national emissions trading and are therefore not complementary; and

2. measures that focus on the market failures and information gaps not addressed by the emissions trading scheme, and that may be complementary.

APPEA recommends, in the case of the first category, that those measures be discontinued. In the case of the second category, APPEA recommends they be addressed at the national level or, consistent with the COAG Principles, through a nationally-coordinated process.

3.3.3 New South Wales Energy Efficiency Strategy

Once the domestic emissions trading scheme is in place at the national level, there is no justification, with reference to the COAG Principles, for the implementation of mandatory energy-efficiency programs targeted at industry. By directly placing a price on carbon, the emissions trading scheme will provide a direct and powerful incentive to identify, evaluate and, where cost effective, act on any energy efficiency opportunities. This means that specific energy efficiency programs impose an unnecessary compliance burden on industry, are counter to any economic efficiency principle, and provide no environmental benefit.

In particular, the proposed New South Wales Energy Efficiency Trading Scheme fails any test against the COAG Principles for measures complementing emissions trading, and work on its development should be discontinued.

3.3.4 Gas and electricity licence conditions

APPEA has indicated in its submissions at the national level (to the Carbon Pollution Reduction Scheme Green Paper and to the Strategic Review of Climate Change Policies (Wilkins Review)) and to the Garnaut Climate Change Review.

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7 APPEA’s submission is available at www.appea.com.au/content/pdfs_docs_xls/PolicyIndustryIssues/greenhouse/strategic_review_of_climate_change_policies_-_21.5.08.pdf
8 APPEA’s submission is available at www.garnautreview.org.au/CA25734E0016A131/WebObj/D0849879ETSSubmission-APPEA/$File/D08%2049879%20%20ETS%20Submission%20-%20%20APPEA.pdf
that any review of complementary measures should be very broad-ranging, and not confined solely to measures that are specifically developed as climate change measures.

This approach would include any reference to greenhouse gas abatement for project approvals, and licensing processes and conditions. Such requirements are redundant in the face of an emissions trading scheme.

| APPEA recommends that if any licence condition cannot meet the COAG principles then they should, in the case of any proposed condition, be abandoned, and be abolished in the case of existing conditions. |