



NSW Legislative Council Hansard (Proof)

Electricity Supply Amendment (Greenhouse Gas Abatement Scheme) Bill

Extract from NSW Legislative Council Hansard and Papers Tuesday 24 October 2006 (Proof).

Second Reading

The Hon. TONY KELLY (Minister for Justice, Minister for Juvenile Justice, Minister for Emergency Services, Minister for Lands, and Minister for Rural Affairs) [5.07 p.m.]: I move:

That this bill be now read a second time.

I seek leave to have the second reading speech incorporated in *Hansard*.

Leave granted.

The international community is quickly coming to the consensus that induced climate change is real.

While debate will continue, it is prudent and necessary for us to continue acting to address the causes of climate change.

The world's climate is a complex natural system... while we can never get absolute certainty as to the causes of individual changes in temperature ... there is now a body of scientific evidence that cannot be ignored:

- rising surface air temperatures ;
- higher subsurface ocean temperatures;
- increase in average global sea levels;
- retreating glaciers; and
- other unambiguous changes to the world's physical and biological systems.

More than any other government in Australia, the New South Wales Government has recognised the need to address the threat of climate change.

Australia has too much to lose—we must take strong practical steps to deal with the challenge of controlling and reducing our greenhouse gas emissions.

Our objective is to reduce the State's greenhouse gas emissions to 2000 levels by 2025, and cut them by 60 per cent in 2050.

Since 1991 greenhouse gas emissions per person in New South Wales have been cut by 15 per cent.

Of particular importance is New South Wales's Greenhouse Gas Abatement Scheme—Australia's first carbon emissions trading scheme.

The scheme is responsible for reducing carbon emissions by 24 million tonnes in total to the end of 2005;

Ten million tonnes were reduced or abated in 2005 alone—that's 33 per cent more than in the previous year.

This Bill ensures the ground breaking Greenhouse Gas Abatement Scheme continues until it is replaced by a National Emissions Trading Scheme.

The scheme's strength is that it harnesses market mechanisms as the most efficient way to reduce greenhouse gas emissions.

Rather than relying on command and control measures, the scheme creates an environment where reducing greenhouse gas emissions makes good business sense.

The market-based nature of the scheme delivers on two fronts—it delivers the highest possible greenhouse gas reductions at the lowest possible cost.

When the then Energy Minister, the Hon Kim Yeadon, introduced the Bill that established GGAS he said...

..."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."

That is still this Government's preferred position.

The New South Wales Government has called for national leadership from the Commonwealth in ratifying the Kyoto Protocol and establishing a national emissions trading scheme. But the Commonwealth Government has so far refused to do either of these.

The Commonwealth prefers to rely solely on subsidies to develop cleaner coal technologies in the hope that they can become competitive with ordinary coal technologies.

We support efforts to research, develop and demonstrate greenhouse-friendly technologies. But the key to making sure this happens in a sustainable way is through a clear market signal.

Without such a signal these new technologies may not be developed in a fully commercial manner and will almost certainly not be deployed.

Ironically, the Prime Minister supports a market signal to reduce water use, but opposes a market signal for reducing greenhouse gas emissions.

But this Government has not used the lack of leadership by the Commonwealth to avoid taking action here in New South Wales – instead we have taken the lead in designing a national emissions trading scheme with all other State and Territory Governments.

The Commonwealth Government has been invited to join our National Emissions Trading Taskforce at any time, but to date has declined to do so.

In August of this year, Premiers and First Ministers released a Discussion Paper on a "Possible Design for a National Greenhouse Gas Emissions Trading Scheme". A national scheme could start as soon as 2010 if State and Territory Governments agree to proceed with it.

The Government is keen to maintain the incentive to invest in low emission generation and abatement projects until a National Emissions Trading Scheme is established.

Unless Honourable Members pass this Bill, the New South Wales Greenhouse Gas Abatement Scheme would end in 2012, leaving business without the certainty they need to invest now in an environmentally responsible way.

Many projects encouraged by the Greenhouse Gas Abatement Scheme require significant capital investment, and investors will only receive a payback over a long period of time.

Without a clear signal that carbon trading will continue beyond 2012, investment in environmentally friendly technologies under the Greenhouse Gas Abatement Scheme may dry up.

For this reason, the Government decided to extend the Scheme until a national emissions trading scheme is established.

This Bill extends the Scheme without major amendments. This is an interim measure to provide continuity for investors facing the uncertainty that the New South Wales Scheme may end before a National Emissions Trading Scheme begins.

If it becomes clear that a National Emissions Trading Scheme is not going to be established or will be delayed indefinitely, the Government will conduct a wide-ranging review of the New South Wales Greenhouse Gas Abatement Scheme.

The aim of such a review would be to ensure the extended Scheme continues to meet the Government policy objectives over a longer timeframe than currently anticipated. These objectives include a future transition to a National Emissions Trading Scheme.

Because the New South Wales Scheme is already well-established, the cost of extending it is minimal, compared with ending it in 2012.

I will briefly give an overview of the Greenhouse Gas Abatement Scheme.

The objectives of the Scheme are to reduce greenhouse gas emissions associated with the production and use of electricity and to encourage participation in activities to offset the production of greenhouse gas emissions.

The Scheme focuses mainly on the electricity sector. Electricity generation is the largest source of New South Wales's greenhouse gas emissions, accounting for 54 million tonnes or 35 per cent of New South Wales economy-wide emissions. Emissions from electricity are growing rapidly, while also offering significant opportunities for abatement.

The scheme includes a penalty regime to create incentives for retailers and large customers to take actions to reduce greenhouse gases under the scheme.

The scheme also creates the capacity for legal ownership of the greenhouse reductions. This property right is made possible through the creation of greenhouse gas abatement certificates.

The scheme allows the owners of these certificates to trade them so they can earn revenue to cover their costs and earn a reasonable return.

The scheme provides for the creation of abatement certificates from activities which offset emissions from electricity, including activities that result in reduced consumption of electricity, activities carried out by large electricity consumers to reduce on-site emissions not directly related to electricity consumption, and the capture of carbon from the atmosphere in forests.

I now turn to the specifics of the Bill.

The primary purpose of this Bill is to give effect to the decision to extend the Scheme.

The Bill amends Part 8A of the Electricity Supply Act 1995 which creates the New South Wales Greenhouse Gas Abatement Scheme.

The major provision in the Bill is to extend the operation of the New South Wales Greenhouse Gas Abatement Scheme from 2012 to 2021 and beyond or until a National Emissions Trading Scheme is established.

It's important electricity retailers continue to have incentives to meeting their greenhouse gas targets under the scheme.

That's why the penalty generally needs to be higher than the predicted costs of greenhouse gas abatement. If the penalty is not higher, electricity retailers may have an incentive to pay the penalty in lieu of funding actual greenhouse gas abatement.

As a consequence of extending the Scheme, the Government has reviewed the penalty required to maintain the incentive to reduce emissions.

The Bill increases the penalty from its current level of \$11.50 to \$15.50 in four equal steps of \$1 each starting in 2010 and ending in 2013.

The Bill also contains a consequential amendment to the *Electricity Supply (General) Regulations 2001* to ensure that both the current and the new penalties will be adjusted correctly for inflation in accordance with movements in the consumer price index.

The Government has an ongoing commitment to improving the efficiency, integrity and transparency of the Scheme. For this reason, the Government is taking this opportunity to make some minor adjustments to the Scheme's administration.

The Scheme Administrator is required to keep a register of accredited abatement certificate providers and a register of Greenhouse Abatement Certificates. The Bill allows the Scheme Administrator to compile and make available consolidated information compiled from the registers.

This will improve market transparency and corrects an anomaly that members of the public could compile and publish this type of information, but the Scheme Administrator could not. As Greenhouse Abatement Certificates cannot be registered until after they have been created, information compiled from the register will reflect past events, not current ones.

Under the Act, people wishing to create Greenhouse Abatement Certificates apply for accreditation. The Scheme Administrator grants accreditation with conditions. A common condition is to prevent double counting of abatement under a mandatory scheme other than the New South Wales Greenhouse Gas Abatement Scheme.

To maintain the integrity of the Scheme, the Bill expands this provision. It does so by providing the

Scheme Administrator with broader discretion to prevent double—counting of abatement used for compliance with voluntary and non—government schemes, or in accordance with any other agreement, arrangement or undertaking.

The Act currently does not have a clear process for accredited abatement certificate providers to apply to the Scheme Administrator to vary or revoke conditions of their accreditation as their projects grow or change. The Bill allows accredited abatement certificate providers to do this.

This provision is similar to the existing provision for applying for accreditation, including the provision to allow charging of an application fee and the discretion to charge additional fees, on a cost recovery basis, for investigating complex applications. This will encourage careful consideration of requests for accreditation condition changes.

The Act currently requires the Scheme's Compliance Regulator, the Independent Pricing and Regulatory Tribunal, to submit its Annual Report by the 30th of June each year.

However, the accredited abatement certificate providers do not have to register Greenhouse Abatement Certificates until the 30th of June of the year following their creation.

To assist fuller reporting of the Scheme's operation, the Bill changes the final date for submission of the annual report by the Compliance Regulator to the 31st of July each year.

This Bill extends the New South Wales Greenhouse Gas Abatement Scheme without major amendment, while allowing the Governor to suspend the operation of the Scheme once a National Emissions Trading Scheme is established.

The Bill provides the continuity that business needs to invest in greenhouse friendly projects. It continues this Government's track record in preparing the people and economy of New South Wales for a world increasingly acting to reduce its greenhouse gas emissions and to reduce the risks to society from global warming.

I commend the Bill to the House.