

Second Reading

The Hon. IAN MACDONALD (Minister for Primary Industries, Minister for Energy, Minister for Mineral Resources, and Minister for State Development) [3.44 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.

In 2003 New South Wales commenced the first mandatory greenhouse gas emissions trading scheme in the world.

The Greenhouse Gas Reduction Scheme, or GGAS, was designed to reduce emissions from the use of electricity in New South Wales, and to encourage activities that offset the production of emissions.

In 2008, the Commonwealth announced a national emissions trading scheme, now to be known as the Carbon Pollution Reduction Scheme or CPRS.

New South Wales strongly supports the introduction of a national emissions trading scheme to deliver the most cost-effective and equitable reduction of greenhouse gas emissions. The CPRS will achieve that outcome.

In 2006 the New South Wales Government provided for the ending of GGAS on the commencement of a national emissions trading scheme. Now that the details of the national scheme are better known, it is now time that New South Wales completes the provisions for the transition to a national scheme. The bill before the House provides for this transition.

The bill proposes legislative amendments to the Electricity Supply Act 1995 that will allow for the reduction in the number of surplus GGAS certificates at the end of GGAS, and the commencement of the CPRS.

OBJECTIVES OF THE BILL

There are two objectives of the Amendment bill.

The first objective is to reduce the number of surplus GGAS certificates by stopping any new applications for accreditation under GGAS from 1 July 2009, or another date nominated.

This will signal the end of New South Wales GGAS and will communicate to proponents of new projects that they should not expect that they will be entitled to any transitional arrangements, including compensation, and that they need to be developing projects that will fit within the new national arrangements of the CPRS.

The second objective is to remove opportunities to create GGAS abatement certificates from generation projects that were commissioned prior to the commencement of GGAS, known as Category A projects.

This is intended to reduce the number of surplus GGAS abatement certificates by some eight million below what it would otherwise have been by end June 2011, that is, the start of CPRS.

I want to make clear that compensation will not be payable to any accredited abatement certificate provider, or benchmark participant, as a consequence of the Amendment bill.

I would now like to provide a brief background to GGAS, before discussing the details of the bill.

GREENHOUSE GAS REDUCTION SCHEME (GGAS)

It is widely accepted that the warming of the earth is a result of human activities that have caused a build-up of greenhouse gases in the atmosphere.

Greenhouse gas emissions from the electricity sector represent around one third of the emissions in New South Wales, and thus this sector is a priority for the New South Wales Government in managing the growth in greenhouse gases.

Commencing on 1 January 2003, the New South Wales Greenhouse Gas Reduction Scheme (GGAS) was the world's first mandatory emission trading scheme. The Scheme was established under the Electricity Supply Act 1995.

GGAS aims to reduce greenhouse gas emissions associated with the production and use of electricity. It achieves this by using project-based activities to offset the production of greenhouse gas emissions.

GGAS establishes an annual statewide greenhouse gas benchmark for the electricity sector and then requires individual benchmark participants (who buy or sell electricity in New South Wales) to meet their allocation of the mandatory greenhouse gas benchmark, based on their share of the New South Wales electricity demand.

Benchmark participants achieve this by surrendering abatement certificates created from project-based emission reduction activities. The surrender of these certificates effectively offsets a portion of the greenhouse gas emissions

associated with their electricity purchases.

Each certificate represents one tonne of greenhouse gas emissions reduction.

GGAS is a 'baseline and credit' form of emissions trading scheme, where certificates or credits for actions that reduce or "abate" emissions are created, compared to a "baseline" representing previous practices, business as usual or, in some cases, current industry practice.

As I have indicated benchmark participants (mostly electricity retailers) are liable under GGAS to meet greenhouse gas benchmarks, and can reduce their emissions liability by purchasing abatement certificates, and surrendering these to the Independent Pricing and Regulatory Tribunal (IPART), as GGAS Regulator.

How has GGAS performed to date?

To date more than 90 million abatement certificates have been created under GGAS. From modest beginnings in the early years when around seven million certificates per year were registered, it has grown to the level when in the years 2006 to 2008 more around 20 million certificates have been registered per year. These certificates have come from well over 200 accredited GGAS abatement projects.

However, the success of GGAS in bringing forward low cost abatement has brought with it challenges as the supply of certificates now comfortably exceeds the demand for certificates for compliance purposes. This, together with the uncertainty around the treatment of unused GGAS certificates at the commencement of the CPRS, has led to a significant fall in the price of GGAS certificates.

TRANSITION FROM GGAS TO THE NEW SCHEME

The New South Wales Government has committed to end GGAS once a national emissions trading scheme, the CPRS, commences.

The New South Wales Government has also committed to ensuring that parties who have invested in good faith under GGAS should not be disadvantaged under the CPRS.

In negotiations about transitioning to the CPRS, the Commonwealth has agreed to consider providing financial compensation to two groups of GGAS participants that would be adversely affected in the transition to the CPRS.

These are generators using waste mine methane, landfill gas and putrescible wastes to generate electricity, and holders of unused GGAS certificates. The Commonwealth has however indicated that it considers the claim of the latter group for compensation to be of lower priority.

Additionally, New South Wales has proposed to the Commonwealth that New South Wales makes an 'in kind' contribution by reducing the number of surplus GGAS abatement certificates that will exist when GGAS ends.

GGAS will transition into the Commonwealth's CPRS in 2011, except for its end-use energy efficiency components which will be incorporated into a New South Wales Energy Savings Scheme to commence on 1 July 2009.

The CPRS is a versatile market mechanism designed to reduce the emissions produced per unit of electricity used, but it does not seek to directly reduce the total amount of electricity demand.

That is why, on 18 June 2008, the New South Wales Government announced a major initiative—the New South Wales Energy Efficiency Strategy.

The New South Wales Energy Efficiency Strategy seeks to complement the CPRS by promoting energy efficiency to reduce overall energy demand. The commencement of the New South Wales Energy Saving Scheme will also assist in reducing the number of surplus GGAS certificates at the end of GGAS.

As I mentioned earlier, the first objective of the bill is to reduce the number of surplus GGAS certificates.

SURPLUS CERTIFICATES

In the transition to the national CPRS, a reduction in the level of surplus certificates at the end of GGAS is needed.

The IPART register of GGAS certificates indicates that there were at the end of May 2009 some 23 million certificates that had been created and not surrendered for compliance purposes.

While around 30 per cent of these certificates were created from energy efficiency activities which will, from 1 July 2009, transition to the Energy Savings Scheme, certificates will continue to be created from the remaining eligible activities and projects under GGAS.

The Amendment bill provides for the refusal of new applications for accreditation from 1 July 2009, or a date to be specified.

This is important, as we do not wish to encourage new projects, which will lead to the further creation of new certificates before the transition to the CPRS.

Although the ability to create GGAS certificates from end-use energy efficiency projects will be removed from 1 July

2009 with the commencement of the Energy Savings Scheme, other accredited projects will continue to create certificates.

In particular, there has been a steady growth in the number of certificates from more efficient electricity generation and low greenhouse emission generation projects such as those using waste methane for coal mining or landfill sites. There are also several new significant GGAS abatement projects in the process of ramping up their output.

Emission reduction projects that reduce industrial process emissions have also been growing steadily, although from a relatively low base.

With the compliance obligation set at around twenty million certificates for a full calendar year, the current level of surplus certificates and growth in certificates from generation projects and industrial processes, there is good reason to limit developers of new projects from seeking accreditation to reduce the impact of the end of GGAS.

The second objective of the bill is to remove opportunities to create GGAS abatement certificates from generation projects that were commissioned prior to the commencement of GGAS, known as Category A projects.

PRE-GGAS PROJECTSPRE-GGAS PROJECTS

Category A generation refers to output from generation projects that pre-dated GGAS. These projects were commissioned prior to 1997.

At the commencement of GGAS it was decided that abatement projects that had been brought to account under the precursor voluntary "benchmarks" scheme would be recognised under GGAS on the basis that this would provide credit for early action.

These projects also had the advantage that they were able to provide a flow of certificates for compliance in the early years of GGAS.

However, as these projects pre-dated GGAS, they had clearly been assessed as economically viable under the negotiated Power Purchase Agreement, without the additional GGAS revenue that they were subsequently able to access.

The Commonwealth has recognised that these projects, like other generation projects that have participated in GGAS to reduce their emissions intensity, will not be disadvantaged in the transition to the CPRS, and has clearly indicated that no compensation will be payable for Category A projects.

The proposed removal of the grandfathering of these pre- GGAS projects will not only reduce the level of the surplus of GGAS certificates, but will also improve the robustness of the GGAS scheme design overall.

It is recognised that GGAS participants with accredited Category A projects will therefore lose out on the value that could have been realised from the creation of these foregone certificates.

It is also recognised that State-owned Corporations will be among the businesses affected, particularly Integral Energy.

However, in making this change, the Government is addressing an even more important issue for the transition of GGAS to the CPRS.

CONCLUSIONCONCLUSION

In summary, these changes are designed to facilitate the transition from New South Wales' world leading GGAS to the national Carbon Pollution Reduction Scheme.

The successful operation of GGAS and the carbon price it introduced into the market across the National Electricity Market has made the start of a national scheme such as the CPRS significantly easier.

However, the New South Wales Government recognises that it is time to plan for the transition from GGAS to the CPRS, and the amendments proposed in this bill are aimed at facilitating this transition.

The bill before the House provides for amendments to the Electricity Supply Act 1995 that will reduce the number of GGAS abatement certificates that will be surplus at the end of GGAS.

The proposals mean that there will be fewer certificates created under GGAS than there would have been if no changes had been made. It is important to minimise the transitional burden by reducing the number of surplus certificates at the end of GGAS.

Additionally, this will signal the end of New South Wales GGAS and will communicate to proponents of new projects that they should not expect that they will be entitled to any transitional arrangements, including compensation, and that they need to be developing projects that will fit within the new national arrangements of the Carbon Pollution Reduction Scheme.

I commend the bill to the House.