



25 March 2009

The Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Submission to the Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme (CPRS)

Dear Secretary

The Australia Geothermal Energy Association (AGEA) represents the major geothermal energy exploration and development companies and the suppliers of equipment and services to the industry.

AGEA is the representative body of an industry that is focused on being a supplier of solutions to meet the long term challenges proposed by the impact of human induced climate change and the need of human societies for energy. AGEA recognises that the proposed CPRS is the centerpiece in the national effort to reduce Australia's national greenhouse gas emissions.

AGEA strongly supports the overall design of the CPRS as a cap and trade scheme as detailed in the exposure drafts and accepts the fundamental tenet of the overwhelming expert advice that it is a market measure producing a least cost outcome. AGEA notes however, that the exposure drafts include particular measures that will increase the overall cost of the Scheme's implementation in order to protect certain 'national interest' matters.¹

AGEA has consistently asserted in its submissions to various government policy development processes and in all its public statements relating to the climate change and energy demand challenges that an emissions trading scheme or CPRS will not succeed in transforming Australia's economy to a low carbon future in isolation. The CPRS must be accompanied by strategically targeted complimentary measures in order to achieve identified national interest outcomes. AGEA raises some specific issues of concern in this regard in this submission.

¹ These matters include the Emissions intensive trade exposed assistance program detailed in Part 8 of the exposure draft and the Assistance to coal fired electricity generators detailed in part 9.

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AGEA is concerned that the exposure drafts contain no reference to other matters of national interest. It appears that the only certainty offered to the diversion of funds raised through the operation of the CPRS is for compensation and that there is no ongoing mechanism for providing assistance to the emerging industries that will be providing the long term solutions to these challenges and this includes the Australian geothermal energy industry.

AGEA therefore, as an industry body representing suppliers of long term solutions, will focus the content of its submission to the Inquiry on the following matters of substantive and material interest in the exposure drafts to its members² being:

1. The Objects of the *Carbon Pollution Reduction Scheme Bill 2009 (The Bill)*;
2. The need for certainty about the impact of strategies enacted in *The Bill* on Australian businesses including geothermal energy businesses; and
3. The level of support delivered by the arrangements outlined in *The Bill* to facilitate the transformation of the Australian economy and its energy industry to a low carbon future.

1 Objects

AGEA offers qualified support for the Objects identified in the exposure draft of *The Bill* which are to:

1. Give effect to Australia's obligation under the Climate Change Convention and the Kyoto Protocol;
2. Support the development of an effective global response to climate change; and
3. Take action directed towards meeting Australia's targets of:
 - a. Reducing greenhouse gas emissions to 60% below 2000 levels by 2050;
 - b. Reducing greenhouse gas emissions to between 5% and 15% below 2000 levels by 2020; and
 - c. To do so in a flexible and cost effective way.

In providing its support for the abovementioned Objects, AGEA asserts that the development of an effective global response to climate change can only occur if all countries including Australia set effective targets. While *The Bill* does not in itself set the target, the target range identified in the CPRS White Paper entitled *Australia's Low Pollution Future* of between 5% and 15% below 2000 levels is not an effective target. This range is clearly identified in the White Paper as being not in Australia's own national interest and this is in clear conflict with *The Bill's* prior stated Object which is to support an effective global response to climate change.³

² And indeed to any other developer of emerging energy technology projects.

³ "A fair and effective global agreement delivering deep cuts in emissions consistent with stabilizing concentrations of greenhouse gases at around 450 parts per million or lower would be in Australia's interests". CPRS White paper, p. li.

AGEA is very concerned therefore that the 2020 target range of between 5% and 15% below 2020 identified in the White Paper will contribute to a potential long term global carbon dioxide equivalent level of between 550 and 510 parts per million, significantly more than the 450 parts per million identified as in our own national interest.

2 The Need for Certainty

The Commentary Paper on *The Bill* notes that “Economies can respond more efficiently to new circumstances when businesses and individuals have certainty about long-term direction. Starting as soon as possible on a gradual adjustment to a low-carbon economy will give them the opportunity to plan their adjustment pathways and manage changes in technology, equipment and skills requirements, and will minimise the risk of stranding existing long-lived assets”.⁴

Ongoing uncertainty, particularly around something as significant as the centerpiece of the national climate change strategy, the CPRS, will not assist in project planning and will continue to delay access to investor interest and investment funds until the parameters and timelines for the Scheme are firmly in place.

While AGEA acknowledges that there are views expressed in favour of delaying the introduction of the Scheme due to the current global financial situation, our members strongly believe that these are outweighed by the gains to be made in providing certainty particularly when the trajectory in the very early years of the Scheme will remain low as Australia is well on track to meet its Kyoto target by 2012.

The Commentary Paper notes that “*The Australian community stands to gain from a comprehensive response to climate change*” and includes analysis from Australia’s own national scientific and research institution which suggest that:

*Modeling conducted by the CSIRO suggests that taking action to reduce Australia’s greenhouse gas emissions could catalyse strong jobs growth over the next 10 years – in the transport, construction, agriculture, manufacturing and mining sectors.”*⁵

AGEA strongly supports this view and asserts that it is imperative that certainty be provided to the Australian business community as a matter of urgency through the swift passing of the enabling legislation in the Senate.

The Australian geothermal energy industry will be a significant destination for investment and a supplier of jobs but the required transformation to a low carbon economy cannot occur without the provision of certainty around the Scheme and the complimentary measures that are needed to make up the national approach.

3 The Level of Support

⁴ Commentary Paper, pp. 7-8.

⁵ Commentary paper, p.8.

The overall long term objective of the national strategy to transform Australia's economy to a low carbon future requires the development of new technologies and projects capable of meeting the fundamental elements that support our standard of living while simultaneously reducing our greenhouse gas emissions by at least 60% by 2050.

The Australian geothermal energy industry will be an important supplier of the emissions free energy required by Australian society well into the future and in doing so will also become an important supplier of jobs to the Australian economy. AGEA is seriously concerned that the policy settings outlined in the exposure draft and in the current suite of complimentary measures are not yet adequate to enable this transformation to occur.

The Commentary paper states that:

*"The Government has established the \$2.15 billion Climate Change Action Fund to provide targeted assistance to business, community sector organisations, workers, regions and communities to smooth the transition to a low pollution economy. The Fund will assist in breaking down market barriers that may raise the cost of responding to a carbon price, and to encourage investment in low-emissions technology. It will also provide targeted assistance for sectors, businesses, regions, communities and workers that may be disproportionately affected by the introduction of the Scheme because of their economic reliance on industries that are more exposed to a carbon price. The Fund will operate between 2009-2010 and 2012-13 (with an additional \$300 million committed over the period 2013-14 to 2014-15)."*⁶

There is no detail in *The Bill* on how or if this Fund would provide support to the emerging technologies. While it goes into considerable detail on how the sectors of the economy that produce greenhouse gases are to be compensated, it provides no direction on how the emerging technologies will be assisted. AGEA believes that the enabling legislation for the CPRS must contain a clear indication of support through the Climate Change Action Fund to assist in the ongoing development of large scale clean energy projects that will contribute to the achievement of the Objects of *The Bill*.

Geothermal energy is predicted to be the lowest cost source of large scale, emissions free, baseload power within the next two decades.⁷ While geothermal energy is already supplying power from more than 10,000MW of installed hydrothermal capacity worldwide, the Enhanced Geothermal Systems of EGS projects are still in the early stages of development globally and the Australian geothermal resource is of international significance for EGS projects. As such, the global geothermal energy community is focused on and working with our geothermal industry and research experts to develop the techniques and the projects here. The export potential for the industry is therefore hugely significant and a number of AGEA's members are already working on collaborative projects around the world and selling their expertise into targeted countries. These countries include Spain, Hungary, Germany, New Zealand, China and the United States of America.

⁶ Commentary paper, p.9.

⁷ A number of recent reports have concluded that geothermal energy will be the cheapest form of all energy sources within this timeframe. A report produced by MMA for AGEA entitled "*Comparative costs of generation technologies*" showing the costs of the clean energy technologies likely to be adopted in Australia by 2020 and 2030 is attached to this Submission.

AGEA is concerned that if the policy signals coming from within our own country are not adequate to maintain and accelerate the level of activity and development currently being undertaken in Australia, the industry will not grow and the expertise is well placed to work in countries where the policy settings are more conducive to accelerated development.

In order to effectively contribute to the debate in Australia, AGEA commissioned economic modeling company McLennan, Magasanik and Associates (MMA) to produce a report identifying the likely output and cost from geothermal energy by 2020. The report entitled, "*Installed capacity and generation from geothermal resources by 2020*" found that between 1,000MW and 2,200MW of installed geothermal capacity infrastructure is likely to be built in Australia under current policy settings. The industry believes that this effort could be accelerated with additional policy support. Marginal and targeted support of this kind would attract the investment needed to grow the industry to the point where it is competitive within the framework of the CPRS and the RET and that the long term benefits in establishing the lowest cost energy industry in Australia will be significant to the Australian economy and the Australian community.

Summary

AGEA's members are focused on the development of an industry that will provide an important and major solution to Australia's long term future in transforming a significant sector of our economy, the energy sector into a low carbon future. Half of Australia's national emissions come from the stationary energy sector each year and the geothermal energy industry will be a vital contributor to the national effort to turn this problem around and provide increased levels of energy while focusing on an overall national emissions reduction target by 2050 of 60% below 2000 levels by 2050.

The detail contained in the exposure draft of *The Bill* does not deliver the incentives that the geothermal industry, or any other emerging industry in the energy sector needs, to develop at the rate required to provide adequate levels of energy to maintain our standard of living while simultaneously contributing to an overall reduction in the level of greenhouse gas emission in the quantities required to avoid dangerous climate change.

AGEA commends the Government on its efforts to ensure that Australia plays its part in meeting the long term challenge of climate change. It proposes to the Senate Standing Committee on Economics however, that the abovementioned matters be addressed in its final recommendations on the detail in the exposure drafts in order to ensure that the Objects of *The Bill* are to be achieved.

Yours sincerely

A handwritten signature in blue ink that reads "Susan Jeanes". The signature is fluid and cursive, with the first name "Susan" being more prominent than the last name "Jeanes".

Susan Jeanes
Chief Executive