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The Secretary
Senate Select Committee on Climate Policy
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Senate Select Committee on Climate Policy

The Local Government Association of South Australia (LGA) appreciates the opportunity to provide a submission to the Senate Select Committee on Climate Policy although noting the short time-frame between a call for submissions and the closing date – 20 working days. The LGA is recognised as the peak representative body for Local Government in this State and prides itself on being the Voice of Local Government South Australia. The LGA provides leadership to Councils and representation outwards to State and Federal governments and other key stakeholders. All 68 Councils in South Australia are members of the LGA.

The concerns listed herein affect the efficient and viable operation of both South Australian Council operations, green energy providers who are supported by Councils, and Local Government emissions of greenhouse gases.

Key points raised in the submission that are relevant to Local Government in South Australia include:

1. Although the majority of Local Councils in South Australia will not be liable for Scope 1 emissions under the proposed CPRS, it is likely that they will incur significant price increases for Scope 2 emissions contained within fuel, electricity and other emissions intensive products, and the treatment of solid and water waste.
2. For those Councils that are liable for waste emissions there are serious concerns about the methodology for counting emissions from landfill.
3. The proposed CPRS does not provide Local Councils with a mechanism to offset their emissions except by registering as a Recognised Reforestation entity and selling permits raised through carbon sequestration. This is likely to be an unviable option for many Councils.
4. The proposed CPRS does not recognise any other form of voluntary action as a mechanism to raise funds to offset increased costs of Scope 2 emissions. In addition, any reduction in emissions by non-labile parties through voluntary offset mechanisms do not reduce the national emissions cap and serves instead to free up permits for use or sale by liable industries (in particular fuel and electricity providers).

5. The voluntary retirement of permits as allowed under the scheme is unlikely to increase the market price of carbon as the mechanisms that allow this are constrained (no export of Australian carbon polluting units, unlimited international permit import, creation of forestry offset permits, free allocation of permits to emissions intensive industries, a \$40 price cap permit allocation in the first 5 years, and acceptance of Kyoto compliant CERs, ERUs and RMUs).
6. Many Councils in South Australia currently invest in GreenPower at a higher tariff rate than polluting energy sources and are concerned that without the inclusion of voluntary actions in the CPRS that it would be financially more effective for them to invest in energy efficiencies, a decision that would have significant negative consequences for the development and support of green energy in the state.

The voluntary carbon market is currently valued at \$150 million per annum in Australia and has the potential to be a powerful mechanism in the reduction of Australia's greenhouse gas emissions. A reduction in Australia's emissions cap equal to the emissions reduction achieved through investment in GreenPower or other voluntary emission reduction projects would provide both market based and social, ethical incentives to invest in clean energy. A reduction in the cap through such a mechanism would maintain the price of carbon polluting permits at a level that provides incentive for emitters to reduce their emissions, and would support the further development of clean energy technologies. Other voluntary activities that the Councils undertake such as the provision of clean energy incentives (solar hot water rebates etc) would also then be supported by the CPRS. Personal motivation and inspiration to reduce the national greenhouse gas emissions cap is a powerful mechanism for change, but there is a serious risk that without the inclusion of voluntary emissions in the CPRS the current enthusiasm by consumers will be severely reduced.

We urge the government to tighten the proposed CPRS caps, include voluntary offsets in the calculation of the scheme cap, and ensure market mechanisms encourage the uptake of clean, renewable energy jobs and alternatives. Following is our full submission for your consideration. If you have any queries regarding this submission please contact me as per details below.

Yours sincerely

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Attach: Local Government Association of South Australia submission to the Senate Select Committee on Climate Policy

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**Local Government Association of South Australia submission to the
Senate Select Committee on Climate Policy**

- A. The choice of emissions trading as the central policy to reduce Australia's carbon pollution, taking into account the need to:**
- i. reduce carbon pollution at the lowest economic cost**
 - ii. put in place long-term incentives for investment in clean energy and low-emission technology**
 - iii. contribute to a global solution to climate change.**

In its Forth Assessment Report Working Group III summary for Policy Makers released in May 2007, the UN Intergovernmental Panel on Climate Change (IPCC) advises that global greenhouse gas emission have increased 70% between 1970 and 2004. Data released since the IPCC released the Fourth Assessment indicates that changes in the climate are occurring faster than predicted in the report and that sea level rise could reach 2m by 2100. In order to limit the global mean temperature to 2.0°C above pre-industrial levels, and so prevent catastrophic climate change, CO₂ equivalent concentrations must be capped at 445ppm. To achieve this cap, the IPCC recommends that global emissions must be reduced by approximately 85% by 2050, with a peak in emissions no later than 2015.

The Local Government Association of SA (LGA) supports the introduction of a fair, efficient and effective emissions trading scheme that both limits Australia's contribution of greenhouse gasses to levels that will prevent global catastrophic climate change, and enables carbon polluters and others to transition to a carbon neutral economy. The proposed Carbon Pollution Reduction Scheme (CPRS) however has a number of limitations. Most notably, in order to be cost effective and climate effective, the reduction of greenhouse gas emissions must be as high as possible in the short term. Both the Stern Report and modeling by the IPCC recommend that early emissions reductions will be most cost effective.

The proposed emissions target of between 5-15% of 2000 levels by 2020 and 60% by 2050 as proposed in the CPRS is significantly lower than that proposed by other developed countries (EU 20-30% below 1990 levels by 2020 and 60-80% by 2050, UK 26-32% below 1990 levels by 2020 and 60-80% by 2050, US 80% by 2050) and are well below the IPCC recommended reductions of 85% by 2050.

At the Bali Conference of the Parties in December 2007 a consensus of developed nations agreed that the appropriate range of short-term emissions reductions by 2020 should be between 25% and 40%, while the Garnaut Report advised a 25% reduction in emissions by 2020 and a 90% cut by 2050. The CPRS currently only commits to the 5% emissions reduction relative to 2000. As such, the scheme will likely increase the cost of future mitigation and adaptation, does not significantly reduce Australia's emissions, does not provide the necessary market forces and hence funds for adaptation to unavoidable climate change and investment in clean energy technologies, and is obviously not a demonstration of leadership on a global scale.

Australia needs to be able to stake a position at international negotiations that clearly demonstrates a national commitment to tacking the very real financial and environmental threats of climate change. The existing targets for emissions reductions in the proposed draft CPRS legislation do not provide an adequate example of Australia's commitment to mitigating the threat of dangerous climate change. This will further undermine the potential to come to a global agreement for a post-Kyoto framework for global emission reduction activity.

B. The relative contributions to overall emission reduction targets from complementary measures such as renewable energy feed-in laws, energy efficiency and the protection or development of terrestrial carbon stores such as native forests and soils.

GreenPower:

Mechanisms that allow Australia to reduce our overall greenhouse gases in a fair, efficient and effective manner are supported. The current draft of the CPRS, however, does not provide incentive for South Australian Councils to invest in green energy alternatives or support domestic energy efficiencies. Nor does it provide reasonable access to funds to reduce the impact of increased costs associated with the introduction of the CPRS, estimated by the Australian Local Government Association to be up to 1.8% of rates.

A significant cost to Local Governments in SA is public lighting, a service that currently represents approximately 2% of council budgets or approximately \$20 million per year and 30% of council greenhouse gas emissions. Councils are likely to be subject to increases in the cost of electricity passed on by the provider (scope 2 emissions).

Almost all Councils in SA purchase GreenPower in order to reduce their emissions and demonstrate leadership in the community. Although the purchase of GreenPower ensures an investment in clean, emissions neutral energy in addition to any other requirements of electricity generators to purchase renewable energy (such as the Mandatory Renewable Energy Target), the failure to include GreenPower emissions savings against the CPRS cap means the inspirational incentive to purchase the product is removed, as savings only serve to free up permits for the energy provider and provides no environmental benefit.

As it currently stands, the accounting processes used to develop the state based grid emissions factors for power generation (Scope 2 emissions) already incorporate the production of renewable power in the States of Australia. As such, the 'sale' of GreenPower does not actually allow for the 'purchaser' of the GreenPower to be able to claim any emission reduction benefit, as the benefit has already been claimed in the state of origin. This double counting of emissions reductions clearly undermines the value of any expenditure on renewable power, and currently can only be used as a contribution to the greater social good. While this in and of itself is not a bad thing, Local Government emissions accounting will require a tangible benefit for using rate payers funds to make an impact on the organisations emissions accounts. The current framework for emissions reporting and the utilisation of GreenPower need to be carefully examined so that a saleable product (i.e. quantifiable emissions reductions) can be claimed by Local Governments for investing in renewable power generation. This problem may be resolved by effectively quarantining the renewable power market from the fossil fuel based electricity generation market.

Additionally, the cost of electricity from the GreenPower scheme is at a higher tariff than that generated from emissions intensive energy. Local Governments are currently reviewing their investment in GreenPower and if the product remains economically uncompetitive and does not guarantee a reduction in the national greenhouse gas emissions cap, many may choose to invest instead in energy efficiencies to offset the increase in the costs of Scope 2 emissions. The ramifications for the support for GreenPower if such decisions are made would be significant.

Finally with respect to GreenPower, there are currently no guarantees that organisations using GreenPower will be shielded from the expected cost rises in the electricity market from the flow through cost of emission permits. Local Government requires surety that investment in GreenPower will mean that the investment is not encumbered by additional (and unnecessary) costs associated with emissions that were not caused by Local Government electricity purchases.

For these reasons the LGA recommends that the impact of the CPRS on GreenPower and similar clean energy resources be reconsidered, and that emissions reductions as a result of investment in clean energy technologies count towards a reduction in Australia's emissions cap.

Opportunities for Councils to offset additional costs

Opportunities for Councils to offset the increases in energy cost associated with emissions are limited to three mechanisms:

- To register as a Recognised Reforestation Entity and gain saleable permits in return for the sequestration of carbon through forest plantations – an unviable option for many Councils;
- Source financial assistance from the Federal Government as a result of income generated by the scheme (currently only the Climate Change Action fund would be available to Councils); or
- Pass on the costs to rate payers.

Given the ongoing (and predicted) decreases in rainfall associated with climate change, many areas of South Australia will struggle to be able to sequester significant amounts of carbon dioxide through revegetation. Additionally, the costs to Local Government of becoming the provider of carbon permits generated through revegetation and carbon sequestration in forestry will likely outweigh the emission reduction benefits in many parts of South Australia. This will include the costs of registration, insurance and forestry management for carbon products, as well as the implications for being able to deal in a registered financial security product, as an AEU would become. These activities are outside the range of core business for Local Government. Additionally, Local Governments generally do not have operational control of the large tracts of land that would be required to be able to generate enough carbon sequestration (and the derived products from such activity) to make a significant reduction in their own emissions profile or to offset the increased costs the CPRS would introduce.

To pass on the costs to ratepayers would incur significant increases in rates (estimated to be of the order of 1.8%). In order to allow for the smooth transition of councils and local communities to the new scheme it is proposed that there be increased and wider opportunities for Councils to receive financial assistance from the Federal Government under the Climate Change Action Fund.

Voluntary Emissions Reductions:

Under the proposed CPRS, greenhouse gas emissions saved by the voluntary actions of householders, business and government do not reduce the national greenhouse gas emissions and Kyoto caps, and the consideration to include them will not occur for at least 5 years.

Despite their often uncompetitive cost when compared to dirty energy sources, there has been a strong ground swell of organisations, businesses and individuals who, out of genuine concern about their own impact on climate change have invested in clean energy and emission reducing project based activities, often in the form of voluntary carbon credits. This can be seen in the volume of voluntary retirements of carbon credits from the Greenhouse Friendly and New South Wales Greenhouse Gas Abatement Schemes from within Australia. This is also further backed by the growing number of businesses and organisations that are looking to be carbon neutral.

The voluntary market in Australia is an activity currently valued at \$150 million per annum, and growing. If voluntary offset actions however do not count towards a reduction of Australia's greenhouse gas emissions cap, and the technologies and project based activities remain financially uncompetitive, it is likely that there will be reduced support for green technologies in the future and significant disenchantment of the public.

Voluntary actions to reduce greenhouse gas emissions both within Council operations and by the public are currently encouraged by Local Government, for example through the provision of rebates for the installation of green technologies such as solar PVC panels and solar hot water systems (in addition to those offered by State and Federal Government). Despite these incentives, many of these clean energy options are still not economically competitive when compared to high carbon polluting sources of electricity and hot water, and pay back periods are significant. It is instead social and ethical drivers that inspire people and organisations to invest in clean energy options and so support green jobs. Without the inclusion of voluntary offsets in the CPRS the goodwill of those who are considering such investments is undermined and the inspirational motivation removed.

For South Australian Councils, energy consumption due to public lighting is currently estimated at 96GW or 66,000 tonnes of carbon dioxide equivalent emissions per annum. Current plans to improve the efficiency of public lighting in South Australia in conjunction with ETSA utilities focuses on the energy efficiency of bulbs and light apparatus. An extensive review of new lighting technologies both in Australia and overseas by LUCID Consulting Engineers, demonstrated that the implementation of energy efficiency programs such as the replacement of existing bulbs with compact fluorescents or solar systems could viably save upwards of 15% of carbon dioxide equivalent emissions for replacement of existing technologies with compact fluorescents and up to 60% with the installation of solar. However, the implementation and maintenance of these alternatives will require significant investment by Councils, in some cases in the tens of millions of dollars and for some options (often the more energy efficient) the cost would not be offset by the savings in energy alone. In these cases, the ethical and social responsibility to reduce emissions as effectively as possible will not be encouraged by the failure of the CPRS to include voluntary offset options in the calculation of Australia's carbon cap. In addition, the opportunity to support emerging green technologies is significantly reduced.

It can be clearly seen by this example that the development of a strong, viable voluntary offset market (covering both covered and uncovered sectors) will allow carbon reduction projects to be developed in Australia, utilising local knowledge, technology and expertise.

This market needs surety of policy environment to develop, and as such the LGA supports the proposal for a voluntary carbon offset market in alignment with the CPRS. Such a development will lead to Australian investment in local offset projects and products, and will ensure that funds deployed by individuals and organisations looking to offset their emissions can be spent in Australia, rather than flowing to other overseas emission reduction projects.

The failure to set a cap on allowable removal units also creates obvious market problems as an excess of offset permits on the market will reduce the cost of carbon and so remove the financial incentive for greenhouse gas polluters to constrain their emissions.

In short, the proposed CPRS undermines the adoption of green technologies and efficiency improvements, and instead provides overly generous supports the dirty energy providers. In addition, the proposed mechanisms to avoid price risk that have been built into the scheme and the provision of free pollution permits will limit the Government's capacity to generate the funds that would be directed towards the support and uptake of green energy and other mitigation measures.

Recommendations made by the Voluntary Carbon Markets Association (VCMA) to the Senate Select Committee address the concerns regarding voluntary carbon reduction actions in more detail and reflect the sentiment of the LGA.

C. Whether the Government's Carbon Pollution Reduction Scheme is environmentally effective, in particular with regard to the adequacy or otherwise of the Government's 2020 and 2050 greenhouse gas emission reduction targets in avoiding dangerous climate change.

As noted under point A, in order to limit the global mean temperature to 2.0°C above pre-industrial levels and so prevent catastrophic climate change, CO₂ equivalent concentrations must be capped at 445ppm. In order to achieve this cap, the IPCC recommends that global emissions must be reduced by approximately 85% by 2050. The proposed CPRS does not commit to a binding reduction in emissions by 2050 at all, with only a proposed 60% emissions reduction by 2050 in lieu of international agreements. The short term emissions reductions (5% by 2020) committed to in the CPRS fall well below those proposed by other industrialized countries and the Garnaut Climate Change Review (25% by 2020 and 90% by 2050). As such, the LGA is concerned that the proposed CPRS does not put Australia on an environmentally effective emissions trajectory and allows room for future caps to sit higher than the proposed long term target. If global commitments to reduce carbon emissions were as weak as those proposed in the CPRS it is unlikely that the planet could avoid dangerous climate change.

D. An appropriate mechanism for determining what a fair and equitable contribution to the global emission reduction effort would be.

For Councils that are liable under the CPRS for waste emissions, there are concerns regarding the methodologies for calculating methane and other greenhouse gases escaping from land fill and other aspects of the CPRS relating to waste. The Australian Local Government Association (ALGA) has been in discussion with Waste Management Association of Australia and has identified a number of outstanding waste issues. These are outlined in more detail in the ALGA submission but can be summarised as:

- Measurement and calculations of emissions from waste;
- The treatment of legacy waste to ensure there is no unfair cost to current rate payers for waste deposited by others in the past; and
- The threshold / proximity rule that defines a 25,000 tonne carbon dioxide equivalent emissions threshold for liable waste facilities, and the proximity of other waste facilities to those that exceed the threshold.

A full discussion of these points can be found in the ALGA submission to the Senate and CPRS Exposure Draft Team.

E. Whether the design of the proposed scheme will send appropriate investment signals for green collar jobs, research and development, and the manufacturing and service industries, taking into account permit allocation, leakage, compensation mechanisms and additionality issues.

Unfortunately, as voluntary offsets are not included in the CRPS, and the capacity of voluntary redundancy of permits is unlikely to increase the price of permits, investment in low carbon economy technologies is likely to slacken with a subsequent move of clean energy technologies and jobs offshore. In short, the failure to develop an adequate emissions cap, with flexibility to reduce the cap more frequently than five yearly intervals, along with the failure of the scheme to accommodate real emission reducing activities and projects from the voluntary sectors (including the lack of a viable voluntary offset standard for both covered and uncovered sectors) will severely impact the nascent voluntary offset market.

The development of technology, expertise and capacity in emissions management, reduction and control within Australia may founder as a result of the existing framework proposed by the existing CPRS draft legislation. It is beholden on the Federal Government to ensure that voluntary action is able to make a difference at the national (aggregate) emissions level.