



WINTER 2009

## Government announces changes to the exposure draft of Carbon Pollution Reduction Scheme Bill.

▶ Vanessa Ritzinger, Lawyer

*On 10 March 2009 the exposure draft of the Carbon Pollution Reduction Scheme bill was released. This bill is the latest step in the creation of a carbon emissions trading scheme in Australia. This proposed legislation follows both the Garnaut Report on Climate Change, the Commonwealth Government's White Paper on Climate Change and the National Greenhouse Emissions Reporting Act of 2007.*

The proposed legislation sets out in some depth, the various mechanisms required to create, regulate and enforce an emissions trading scheme.

However, the global financial crisis has taken its toll on the timetable for the introduction of the Scheme. On 4 May 2009 the Government made a series of announcements which not only delayed the introduction of the Scheme, but also altered several of its core principles in relation to emissions targets and relief for trade exposed industries so that:

- obligations under the Scheme would be delayed until 1 July 2011 (rather than 1 July 2010);
- in the year ending 30 June 2012, an unlimited amount of permits would be available for \$10 per tonne of CO<sub>2</sub> for use during that year only;
- trading of permits would commence in the year commencing 1 July 2012;



- emissions are set to be reduced to 25% of 2000 levels by 2020;
- the assistance for emissions-intensive trade-exposed (EITE) activities would be adjusted to allow for a "Global Recession Buffer" whereby between 5% -10% more permits would be issued to eligible entities, depending on the level of assistance given to them under the Scheme.

The bill was introduced into parliament on 14 May 2009. The Government hopes that its recent amendments will make the Scheme more attractive and practical in the current economic climate. ■

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# Electricity & Water Industries - A Capital Works Program

▶ **Keith Orchison, Consultant**

At a time when there is strong political focus on the need to invest in infrastructure as part of the cure for the economic malaise gripping the world, Australia's key essential services industries – electricity and water – are embarking on the largest capital works programs in their history.

Current analysis of the outlays – in government-commissioned reviews, industry modelling and media reports – suggests that the electricity and water sectors may spend as much as \$130 billion over the next decade to keep up with Australian demand growth, to meet policy requirements and to replace ageing assets.

Some of these expenditure predictions are necessarily speculative, especially in power generation, where investments will be affected by policy decisions, the impact of economic conditions on demand growth and the availability of finance in a credit-constrained environment.

Estimates of the outlay on new renewable generation as a consequence of the proposed changes to MRET, for example, range from \$20 billion to \$35 billion for the period 2010 to 2020. Estimates of how much gas-fired generation capacity will be built depends, in turn, on opinions of the impact of carbon charges through emissions trading on older, coal-fired power stations as well as on the need for peaking power if the southern seaboard continues to be exposed to extreme summer heat in the next few years.

Some investment trends are more clear.

The water utilities serving Melbourne and the rest of Australia's urban areas are embarking on a \$5.7 billion

project to replace old and underperforming assets between now and 2013. Many of these facilities are now 50 years old and, while they often have lives of 100 years, their failure would present a significant problem for 16 million consumers.

This investment is in addition to \$2.7 billion to be spent over five years on maintaining the cities' water supply system.

In the electricity sector, the network service providers – both transmission and distribution – are on the cusp of launching programs, waiting on final regulatory approval, that will see \$4.5 billion spent annually for five years from 2009 on upgrading and expanding their systems. This is a 77.5 percent increase on the \$2.5 billion annual average outlay for power networks in the past five years.

If the new renewable energy target policy delivers generation development as anticipated – and especially wind farms away from the existing power grid in Victoria, South Australia, Tasmania and New South Wales – it is estimated by both government advisers and the industry that some \$4.5 billion will need to be outlaid on transmission lines to link the plants to the load. This is in addition to the transmission sector's estimates that it will need to spend about \$16 billion on capital works over the decade.

The astonishing scale of this investment comes more clearly in to view when it is appreciated that an investment of \$50 billion on Australian power networks over 10 years represents an outlay of about \$15 million every day of the decade. .... [Continued on page 3](#)



## Madgwicks Green Update

Madgwicks is pleased to announce the outcome of our recent carbon management audit conducted by Green Pass, which provided appropriate energy reduction advice. Madgwicks' Green Team is working towards establishing a sustainable work environment for the firm and its employees and reducing the firm's carbon footprint.

The carbon management audit was designed to take Madgwicks to the next level of Corporate Social Responsibility. The audit involved measuring and reporting on all energy consuming devices within our premises, such as lighting, IT equipment, printers and electrical appliances and identifying potential savings in energy and costs of approximately 20%. Additionally, a benefit has been the assessment of employee attitudes, which has resulted in a number of new initiatives. ■

## Electricity & Water Industries - A Capital Works Program

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This level of development, along with generation investment, will also make a major demand on State and local governments as well as on regulatory agencies to ensure that the power project approval process, which is constantly criticised by investors because of perceived inefficiencies, is able to facilitate timely delivery of reliable, cost-effective essential services.

Policymakers will also be confronted with the inevitable need to increase end-use energy and water bills as a consequence of such high investment, creating the need for a new focus on consumer efficiency and new pressures on regulators to ensure that the suppliers are meeting world's best practice in delivery. ■

### *Alert!*

The exposure draft of the Carbon Pollution Reduction Scheme Bill has been released and requires liable entities to surrender Australian Emissions Units in respect of their greenhouse gases in accordance with the national scheme cap. Businesses in emissions intensive or trade exposed industries may be eligible for some relief under the Emissions Intensive Trade Exposed Program. This program allows free Australian Emissions Units to be issued each financial year in an effort to reduce the impact of the new legislation on those businesses. Businesses interested in being included in this Program need to examine the relevant eligibility criteria to ensure that they will be able to benefit from this Program. For more information please contact:

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We are one of the few firms outside of the large law firms with experience in advising energy businesses on a range of regulatory and business issues.

## About Madgwicks

Madgwicks is a progressive business law firm servicing local, national and international clients.

Our personnel pride themselves on responsive legal services driven by a passion for client success. Our lawyers strive to provide accessible and professional legal solutions, and partner with our clients to work with them in achieving their business objectives.



## Bird details NEMMCO's annual 'statement of opportunities'

► **Keith Orchison, Consultant**

The value of wholesale power traded in the eastern seaboard's National Electricity Market now exceeds \$10 billion a year, the final Madgwicks Energy Forum for 2008 has been told.

The presentation was delivered for the National Electricity Market Management Company (NEMMCO) by its General Manager, Corporate Communications, Mr Paul Bird.

The NEM, he pointed out, is the world's longest interconnected electricity grid, extending 5,000 kilometres over five interconnected regions from Port Douglas in Queensland to Port Lincoln in South Australia as well as to Hobart in Tasmania since Basslink was added to the system. It delivered 199,000 gigawatt hours of electricity in 2007-08 to almost eight million customers, worth \$10.2 billion.

Mr Bird said demand continued to grow strongly in the NEM, driven in particular by the continuing requirement for air-conditioning and the expansion of IT business in Australia.

His presentation focused in particular on NEMMCO's annual "statement of opportunities," a key planning tool for the 134 registered parties – including generators, transmission service providers and energy retailers – in the market. The 2008 "SOO" was published on 30 October.

Mr Bird said the need to expand generation capacity to maintain an adequate reserve for peak demand was

now evident for Victoria and South Australia, which are treated as a single region in the NEM, with Victoria's most recent summer peak demand reaching 9,818 MW against an installed capacity of 9,786 MW. Victoria imports power from NSW and Tasmania at times of peak demand, and exports to these states at other times.

The "SOO," he added, had identified some 6,200 MW of gas-fired generation as under active consideration for development in the NEM. At present only 240 MW of additional black coal plant was earmarked for development.

The Energy Forum audience was particularly interested in discussing future renewable capacity development in the NEM with Mr Bird in the context of the proposed new legislation to introduce emissions trading and an expanded renewable energy target.

He noted that emissions trading in particular raised critical issues for the NEM as it is likely to change the generator bidding process. The 2009 "SOO," he added, would be paying particular attention to the anticipated large increase in the number of wind farms over the decade ahead.

Other important issues receiving close NEMMCO attention, Mr Bird said, included the continuing impact of eastern seaboard drought conditions on electricity supply in the market, the ongoing development of a national "smart metering" rollout and the move to establish a single entity, the Australian Energy Market Organisation, to manage electricity and gas markets. ■