10 September 2008

Carbon Pollution Reduction Scheme Green Paper
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Carbon Pollution Reduction Scheme Green Paper

The Australian Pipeline Industry Association (APIA) welcomes the opportunity provided by the Australian Government to comment on the proposed design of the Carbon Pollution Reduction Scheme outlined in the Government's Green Paper.

APIA is the peak national body representing the interests of Australia's transmission pipeline sector. APIA's current membership is predominantly involved in high-pressure gas transmission. APIA's members include contractors, owners, operators, advisers and engineering companies and suppliers of pipeline products and services. APIA's members are pleased to be invited to participate in the development of policies regarding emissions trading and are also involved in the development of appropriate policies with regard to the transportation and storage of carbon waste.

APIA acknowledges the need to respond to the challenges presented by climate change and is pleased to respond to the Carbon Pollution Reduction Scheme (CPRS) proposal. Issues raised by the Green Paper that are of particular concern to APIA are:

- Pass through of carbon costs. Many gas transmission pipelines are unlikely to be able to immediately pass on carbon costs because long-term contracts, particularly those entered into before climate change became an issue of public importance, do not always allow for the introduction of new costs. It is vital for the pipeline industry that this issue is addressed in the development of the CPRS.

- Identification of operational control. The definitions proposed for operational control in the current proposal need to be clarified in order to remove an ambiguity that arises for pipeline owners.

- Emissions methodology and definitions. The characterisation of fugitive emissions in the Green Paper is misleading as it suggests that fugitive emissions from transmission pipelines occur through leakages. This is not the case.

APIA would like to thank Synergies Economic Consulting for its assistance in preparing this submission. If you need further information, please feel free to contact me on (02) 6273 0577 or at ccartwright@apia.asn.au.

Yours sincerely

CHERYL CARTWRIGHT
Chief Executive

10 September 2008

Australian Pipeline Industry Association
Carbon Pollution Reduction Scheme Green Paper
Response

Key points

Coverage - should be as broad as possible. Coverage should be extended as quickly as possible for those sectors that are not covered from scheme outset.

Market Design - the CPRS should transition out of assistance measures as quickly as possible. Many complementary measures, such as the Renewable Energy Target creates distortions that increase the cost of carbon abatement and should be removed.

Reporting and Compliance - for gas transmission pipelines the owner of the pipeline should be taken to have operational control for the purposes of determining liability. The point of liability for gas transmission pipeline emissions from pipelines that do not have emissions that exceed the 25ktCO2-e/yr threshold should be placed on downstream entities in the gas supply chain.

Transmission Pipeline Emissions - gas transmission pipelines are typically accurately measured and accounted for their emissions of GHG. These emissions should not be characterised as leakages from gas transmission pipelines. Commercial agreements ensure the accurate metering and efficient use of system use gas as well as assigning (with limited exceptions) accountability for gas emissions.

Assistance - For households, assistance policies should be structured to be consistent with minimising economic cost – that is through general welfare measures for those assessed as requiring assistance. Assistance policies to households and EITEs should not distort the fuel mix that results from implementing the CPRS and should provide incentives to achieve carbon efficiency.

Pass through -where pass through of CPRS costs is not possible due to long term contracts, legislation must provide for costs to be passed through or compensation provided to affected firms.

CPRS Revenue - revenue generated from the CPRS should be used to address problems with the operation of the CPRS and to ameliorate regressive impacts on lower income consumers but beyond that should be used to reduce other components of the tax burden on the economy.

Introduction

APIA is the peak national body representing the interests of Australia's transmission pipeline sector. APIA's current membership is predominantly involved in high-pressure gas transmission. APIA's members include contractors, owners, operators, advisers and engineering companies and suppliers of pipeline products and services. APIA's members are pleased to be invited to participate in the development of policies regarding emissions trading and are also involved in the development of appropriate policies with regard to the transportation and storage of carbon waste.

APIA acknowledges the need to respond to the challenges presented by climate change and is pleased to respond to the Carbon Pollution Reduction Scheme (CPRS) proposal.

Issues raised by the Green Paper that are of particular concern to APIA are:

- Pass through of carbon costs. Many gas transmission pipelines are unlikely to be able to immediately pass on carbon costs because long-term contracts do not always allow for the introduction of new costs. The viability of the gas transmission industry relies on the long-term nature of contracts and securing finance for the construction of a gas transmission pipeline requires transmission companies to enter long-term contracts with shippers. Whilst contract terms differ between pipeline companies, in the absence of legislative (and regulatory) backing for the pass through of carbon related costs, these gas transmission pipeline owners could experience significant losses in asset value due to the implementation of the CPRS. It is vital for the pipeline industry that this issue is addressed in the development of the CPRS.

- Identification of operational control. The definitions proposed for operational control in the current proposal need to be clarified in order to remove an ambiguity that arises for pipeline owners in the current proposal. This ambiguity arises because pipeline owners frequently contract out the operation of gas transmission pipelines to pipeline operators. Accordingly, APIA seeks clarification that the owner of a gas transmission pipeline, rather than the manager or operator, has operational control for the purposes of the CPRS.

- Emissions methodology and definitions. The characterisation of fugitive emissions in the Green Paper is misleading as it suggests that fugitive emissions from transmission pipelines occur through leakages. Firstly, there are no 'fugitive' emissions from gas transmission pipelines. The emissions produced by transmission pipelines are typically accurately measured and accounted for by pipeline companies and commercial agreements ensure the accurate metering and efficient use of system use gas as well as assigning (with limited exceptions)

accountability for gas emissions. APIA proposes that the American Petroleum Institute (API) measures of transmission pipeline emissions be used

Australia is an energy intensive economy. Our long-term prosperity hinges on the transition to an energy intensive economy that is carbon efficient (that is, ensuring a given abatement target is achieved at minimal economic cost). Australia's transition to carbon efficiency can only be successfully managed by simultaneously:

- maximising economic growth while allowing for the introduction of a CPRS emissions cap and trajectory;
- achieving emissions reductions at minimum economic cost, which in turn requires minimising economic distortions attributable to the CPRS; and
- making best use of the carbon dividend – namely using the carbon dividend to achieve a corresponding reduction in the tax burden across the Australian economy.

Natural gas is an abundant source of lower emissions energy for Australia. Gas transmission pipelines (and the gas industry more broadly) are an important part of the solution to facilitate the transition to a less emissions intensive (that is, a more carbon efficient) economy.

It is within this framework that APIA offers the following comments in relation to specific issues identified in the Green Paper.

Coverage

Broad coverage allows Australia's carbon constraints to be met at minimum cost through maximising the potential abatement opportunities available to CPRS participants. Distortions to the operation of the scheme will be minimised if the CPRS is implemented broadly over all industries and sectors of the economy. Broad application of the system would provide transparency and better assist the economy to adjust to the CPRS, reducing the negative impact on Australia's economy and key infrastructure.

In accordance with the identified benefits from broad application of the scheme, APIA supports the transition to broad coverage under the CPRS as quickly as possible. This includes extending the scheme to cover industries and sectors that are not initially proposed to be covered.

In this context, APIA understands the rationale for initially omitting agriculture from the CPRS. However, APIA urges the inclusion of agriculture at soon as this is achievable.

In this respect, APIA submits that carbon accounting for specific industries that are to be covered will be a relatively imprecise process (at least for the application of Method 1 of NGERS).

APIA notes that a great deal of work has already been undertaken on green house gas (GHG) emissions for certain agricultural sectors, including, for example, the Victorian Government's GHG calculator for the dairy industry.[1] Moreover, the flexibility of the NGERS reporting framework (with 4 separate Methods identified for the assessment of emissions) enables the early inclusion of many agricultural sectors in the CPRS.

APIA therefore submits that the work already undertaken for agricultural sectors provides a basis for the early inclusion of at least those sectors in the CPRS.

Recommendation 1: The CPRS should extend coverage as broadly as possible as quickly as possible, including the early inclusion of those agricultural sectors that could apply Method 1 of NGERS.

[1] It is recognised that the development of an emissions calculator is not a substitute for estimating emissions for the purposes of the reporting requirements under NGERS or the future acquittal requirements under the CPRS. Nevertheless, the development of these tools demonstrates the ability to estimate GHG emissions. See for example, http://www.climatechange.vic.gov.au/greenhouse/wcmn302.nsf/LinkView/01B89BAF90653FEECA257199007EABC9A5DD93E590667B0DCA2571A9002596A8

Market design

Australia is an energy intensive economy and will continue to be so in order to maintain a strong economy. It is critical that the CPRS be implemented in a way which minimises economic impact of achieving greater carbon efficiency.

APIA believes that the transition to an unconstrained market for carbon permits should be as rapid as possible. This in turn requires that, with the exception of emission intensive trade exposed industries (EITEs), assistance measures need to be phased out as quickly as possible.

In addition, the expanded national Renewable Energy Target (RET) designed to supplant the existing MRET and state and territory RET targets undermines the market design of the CPRS.

The RET is expected to ensure that 20% of Australia's electricity is provided by renewable sources by 2020. This will require a legislated increase of renewable electricity generation to 45,000GWh in 2020, compared to the requirement of 9,500GWh under the existing MRET scheme.

The creation of an unfettered carbon market under the CPRS will fundamentally affect the investment and operating decisions of Australia's electricity industry. It is to be expected that this impact will include substantially increasing the use of low and zero emissions electricity generation alternatives. This is both a necessary and inevitable outcome of the effective operation of Australia's policy response to climate change.

However, the proposed expanded RET is likely to compromise the carbon efficiency of Australia's electricity industry because the industry will endeavour to operate at minimum economic cost to reduce the cost impact of the RET.

The expanded RET will distort Australia's generation mix towards particular technologies, possibly increasing the use of cheaper coal-fired electricity generation to offset the increased use of more expensive renewable energy, rather than allowing the carbon market to determine the least cost pathway to carbon efficiency.

Recommendation 2: Assistance measures associated with the CPRS should be removed as quickly as possible.

Recommendation 3: The RET impedes the ability of the CPRS to reduce emissions at minimum economic cost and should, preferably, not be introduced in conjunction with the CPRS.

Cost Pass Through

Cost pass through of new government charges must be addressed in legislation and regulations associated with the CPRS to avoid negative impact on some gas transmission pipelines owners. Pass through issues arise for both regulated and unregulated pipelines.

Many contracts in the gas transmission industry are long term and predate the fundamental policy shift of the CPRS.

Whilst the wording in relation to change of law clauses or pass through of tax changes will depend upon particular contracts, many contracts do not allow for costs associated with carbon constraints to be passed through to customers.

This problem could not reasonably have been anticipated at the time many of these contracts were executed. Even where change of law clauses are present in a contract it is still not clear that these clauses will cover the costs associated with the introduction of the CPRS.

Such a measure would also need to ensure that regulators are required under the National Gas Rules to allow any CPRS related costs as being prudently incurred for the purposes of achieving the lowest sustainable cost of delivering pipeline services in any future pricing determination.

The most effective means of addressing this issue is to legislate to authorise affected providers who entered contracts prior to 2008 to pass through the costs attributable to the CPRS, or in the event that these costs cannot be passed through, provide for compensation for affected parties for the duration of the relevant contracts.

Recommendation 4: Legislation and regulations for the CPRS must allow costs to be passed through or affected entities must be compensated for losses incurred .

Reporting and compliance

APIA has identified that the treatment of operational control and point of liability in the Green Paper require further consideration in the context of gas transmission pipelines.

Operational control

The definitions proposed for operational control need to be clarified to remove the ambiguity that arises for the gas transmission sector in the current proposal.

This ambiguity primarily arises from two aspects. Firstly, pipeline owners frequently contract out the operation of gas transmission pipelines to pipeline operators. Irrespective of the level of independence pipeline operators may appear to enjoy, a gas transmission pipeline owner's license conditions require it to exercise ultimate control of and have responsibility for the policies and procedures applied to its pipeline.

Consequently, the industry considers it desirable that any doubt as to the determination of operational control should be removed. Accordingly, APIA seeks clarification that the owner of a gas transmission pipeline, rather than the manager or operator, is formally designated as having operational control of the transmission pipeline for the purposes of the CPRS.

Secondly, the broad definition of Scope 1 ancillary activities causes real issues for remote pipelines. Once a pipeline owner exceeds the corporation or facility thresholds, it can be interpreted that all greenhouse emissions and energy data associated with a facility, including those produced by contractors and subcontractors, must be captured and reported. In remote areas, as a matter of necessity, local small contractors are often used in support of the operation of a facility. Thus, the time, effort and cost of setting up processes to collect these non-core business inconsequential emissions and consumptions would seem to be of questionable value.

This matter requires further clarification and APIA suggests Scope 1 ancillary activities undertaken by a contractor are clearly defined as Scope 3 activities.

Recommendation 5: For the purposes of the CPRS, the owner of a gas transmission pipeline is taken to have operational control.

Recommendaion 6: Scope 1 ancillary activities undertaken by a contractor are clearly defined as Scope 3 activities.

Point of liability

Some gas transmission pipelines will not meet the facility threshold for coverage of 25ktCO2-e/yr. Although they will not be covered at a facility level, emissions from these pipelines will occur. The issue therefore arises as to the point of liability for gas transmission pipelines operating below the relevant threshold.

As gas transmission pipelines meter energy in and out of transmission pipelines, either upstream or downstream, liability can be adopted with the same accuracy and coverage as emissions.

A clear determination of which point of the supply chain bears responsibility for such emissions is required in order to provide for pass through of costs associated with CPRS compliance.

APIA believes it preferable for the point of liability to be assigned to downstream customers rather than upstream. This is consistent with the current approach towards 'system use gas' taken by the pipeline transmission industry, whereby energy consumed in the transport of gas is supplied or paid for by the shipper (usually, but not always the downstream party).

Recommendation 7: The point of liability for pipelines under the facility threshold is assigned to downstream customers.

Transmission pipeline emissions

The Green Paper defines fugitive emissions as follows:[2]

> Greenhouse gases that are released in the course of oil and gas extraction and processing; through leaks from gas pipelines; and as waste methane from black coal mining

APIA is concerned that this definition misrepresents the nature of emissions from the gas transmission pipeline industry by making reference to generic 'gas pipelines'. Gas transmission pipelines have very different characteristics to gas distribution pipelines as outlined below.

TRANSMISSION	DISTRIBUTION
LONG DISTANCE	COMPLEX NETWORKS
HIGH PRESSURE	LOW PRESSURE
POINT TO POINT	MANY INPUTS AND OUTPUTS
FEW LARGE CUSTOMERS	HUNDREDS OF THOUSANDS OF CUSTOMERS

Natural gas transmission pipelines operate at very high pressure (generally between 5,000kPa and 15,300kPa) as opposed to the very low pressures (100kPa to 1000kPa) that are found in gas distribution networks. The high operating pressures of gas transmission pipelines lead to design specifications that do not allow leaks to occur. Whilst emissions do occur from gas transmission pipelines, there are relatively few sources of 'leakages' – none of these 'leakages' occur from the pipeline. The vast majority of the gas that is lost by the gas transport industry occurs through leakages on low pressure distribution networks.[3]

[2] Page 509.

[3] Department of Climate Change National Greenhouse Gas Inventory Committee, Australian Methodology for the Estimation of Greenhouse Gas Emissions and Sinks 2006 Energy (Fugitive Fuel Emissions), p28.

In fact there are only three sources of emissions from gas transmission pipelines, and all are well understood and accounted for:

- the combustion of methane in gas turbines to drive compressor stations;
- closely controlled operational releases; and
- unaccounted for gas emissions.

Gases emitted from compressor stations

Compressor stations emit GHGs in two ways:

- compressor fuel usage involving the combustion of natural gas to drive the compressor station's turbine (giving rise to the emission of CO_2); and
- venting - which occurs when compressors vent unburnt methane. The total vented gas depends on the efficiency of the compressor station and can account for as little as 3% of total CO_2 equivalent emissions from a compressor.

Both of these forms of emissions from compressor stations are capable of accurate measurement by the licensee of the pipeline.

Controlled operational releases – venting of gas

Methane is vented very infrequently from transmission pipelines for the following important operational safety reasons:

- blow downs - in some circumstances venting of gas in transmission pipelines is necessary in order for maintenance to be undertaken. The gas in the section of pipe that is subject to the maintenance is released to the atmosphere, but can be re-injected into the pipeline at substantial cost;
- venting - when poor quality gas is allowed to enter the pipeline, in some circumstances it may be necessary to vent the gas before it reaches customers to protect the pipeline and downstream infrastructure and ensure the quality of the delivered product, however, this is a rare event; and
- emergency shut down (ESD) - in the event of an ESD a compressor station is isolated from the pipeline and a small amount of methane is vented to secure the safety of the compressor station.

Unaccounted for GHG emissions

Unaccounted for GHG emissions may occur in very limited circumstances such as some opening of valves on gas transmission pipelines. These emissions can be accounted for as system use gas, and in cases where they are not accounted for can be reasonably estimated. In contrast to gas distribution pipelines, trivial volumes of gas are released in this way.

Limits of the accuracy of metering systems create discrepancies in the amount of gas into and out of transmission pipelines, which is usually labelled 'unaccounted for gas (UAG)'. UAG, is quite different to unaccounted for GHG emissions and should not be considered as emissions. Indeed, often UAG is positive and suggests gas has been created in the pipeline. The industry has well established mechanisms in place to account for UAG.

Carbon Accounting Implications

The 2006 IPCC Guidelines for National Greenhouse Gas Inventories explains that sources of fugitive emissions from oil and natural gas systems include:[4]

- equipment leaks;
- evaporation and flashing losses;
- venting;
- flaring;
- incineration; and
- accidental releases (e.g., pipeline dig-ins, well blow-outs and spills).

The IPCC states that while not always the case, fugitive emissions are generally subject to significant uncertainty related to measurement issues and inconsistencies in the approach taken to accounting for such emissions.[5]

This is not the case in the gas transmission pipelines industry – as accurate metering is applied to both at the receipt point on entry to the gas pipeline and at the delivery point where gas is delivered to the distribution network or to a major user. Consumption of gas by transmission pipelines can therefore be very accurately and reliably measured.[6]

[4] IPCC, Guidelines for National Greenhouse Gas Inventories, 2006, 4.32.

[5] IPCC, Guidelines for National Greenhouse Gas Inventories, 2006, 4.32.

[6] Allowance for tolerances around metering errors is necessary.

The National Greenhouse Accounts Factors defines fugitive emissions as:[7]

> intentional or unintentional GHG releases (such as methane emissions from coal mines, natural gas leaks from joints and seals)

The Australian Methodology for the Estimation of Greenhouse Gas Emissions and Sinks Energy (Fugitive Fuel Emissions) provides that:[8]

> emissions may occur as a result of compressor starts (for which gas expansion is typically used to start gas turbine power units), blowdowns for maintenance at compressor stations, maintenance on pipelines, leakage and accidents.

In the context of transmission pipelines in Australia, fugitive emissions actually refer to very small GHG emissions which are commonly measured with a high degree of accuracy. The characterisation of fugitive emissions in the Green Paper is misleading in suggesting that fugitive emissions from transmission pipelines are comprised by leakages. The emissions produced by transmission pipelines are typically accurately measured and accounted for by pipeline companies and those emissions that cannot be accurately measured can be estimated and are insignificant. In addition to this, commercial agreements ensure the accurate metering and efficient use of system use gas as well as assigning (with limited exceptions) accountability for gas emissions.

Accordingly, APIA submits that a more disciplined approach needs to be taken to the issue of fugitive emissions, at least so far as those emissions apply to the gas transmission pipeline industry. In this regard, APIA considers that the IPCC references provide a more appropriate basis for the description of fugitive emissions for the CPRS.

Until better information becomes available in relation to the actual emissions from the transmission pipeline industry in Australia, APIA proposes the IPCC references are used to describe fugitive emissions for the CPRS and that the American Petroleum Institute (API) measures of transmission pipeline emissions be used to estimate those fugitive emissions that are not measured.

Recommendation 8: That it is recognised that gas transmission pipelines are able to account for all emissions and the API measures of transmission pipeline emissions be used, until such time as more appropriate methodologies are developed.

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[7] Department of Climate Change, National Greenhouse Accounts (NGA) Factors, January 2008, p4.

[8] Department of Climate Change, Australian Methodology for the Estimation of Greenhouse Gas Emissions and Sinks 2006 Energy (Fugitive Fuel Emissions), p26.

Household assistance

The burden of the CPRS on households will be minimised by pursuing policies that provide incentives for emitters to reduce emissions at minimum cost across the economy as a whole, and by applying the carbon dividend to lower the overall tax burden rather than hypothecating that revenue for particular carbon or energy related purposes.

Assistance to households in adjusting to the CPRS must be in accordance with 2 key factors:

- assistance policies should be structured to be consistent with minimising economic cost – that is through general welfare measures for those assessed as requiring assistance; and
- assistance policies should not distort the fuel mix that results from implementing the CPRS - emissions reduction policies must be structured to provide assistance on a technology and fuel neutral basis.

Low emissions technologies and fuel sources as well as renewable energy technologies and fuel sources will, no doubt, have a place in delivering required CPRS outcomes.

However, to minimise the economic cost of achieving an overall abatement target or requirement the role that each fuel and each technology plays in that process must be determined through the unimpeded operation of the carbon market.

Any attempt to favour or provide an advantage to a particular fuel source or technology will distort the underlying market position of all fuels and technologies and will inevitably increase the economic cost of achieving abatement. Put another way, any distortion to the operation of the CPRS will perversely reduce the emissions abatement potential of the economy for a given cost to the community.

Recommendation 9: Assistance to households and businesses in adjusting to the CPRS must be in accordance with 2 key factors:

- **assistance policies should be structured to be consistent with minimising economic cost – that is through general welfare measures for those assessed as requiring assistance; and**
- **assistance policies should not distort the fuel mix that results from implementing the CPRS; emissions reduction policies must be structured to provide assistance on a technology and fuel neutral basis.**

Emissions intensive trade exposed industries

The introduction of the CPRS imposes substantial risks to EITEs while there are no broad and binding international agreements on carbon constraints. The competitiveness of Australia's emissions intensive export industries would be threatened by the implementation of the CPRS if compensation is not provided to affected industries.

APIA considers there is no global benefit to be secured by penalising the competitiveness of Australia's export industries with the introduction of the CPRS. Whilst the substantial negative impacts on Australia's economy of any penalty falling on EITEs has already been highlighted, APIA believes that the consequential negative impacts on upstream and downstream industries has not been properly documented. For example, as the provider of gas transmission services, APIA notes that any failure to protect EITEs will have a corresponding negative impact on investment in key national infrastructure including transmission pipelines.

Assistance to export industries must take a form that does not impede the CPRS operating to achieve carbon efficiency – the reduction of emissions at minimum economic cost. APIA is concerned that different compensation arrangements for EITEs could have the effect of generating incentives for them to procure energy from more carbon intensive sources that would otherwise be the case. Accordingly, assistance provided to trade exposed industries must not be allowed to distort the fuel or technology mix that emerges from the introduction of the CPRS as such an outcome would undermine the ability of the economy to achieve carbon efficiency at minimum cost.

The incentive to achieve carbon efficiency must still be passed through to EITEs under the CPRS by the market for carbon permits determining the fuel source for industry. If the operation of the CPRS is compromised by assistance measures then the overall cost of meeting Australia's carbon reduction increases.

Recommendation 10: Assistance provided to EITE industries should be framed in such a way that EITE industries have an incentive to achieve carbon efficiency.

Strongly affected industries

The Green Paper provides five industry characteristics in its preferred position on eligibility for assistance for strongly affected industries. The transmission pipeline industry is not yet considered a possible candidate for assistance as a strongly affected industry even though there is no doubt that certain gas transmission pipelines meet the criteria:[9]

- gas transmission pipelines are not directly trade exposed, although pipelines provide a service to trade exposed industries;
- gas transmission pipelines are emissions-intensive - some transmission pipelines meet the qualifying criteria for assistance as they exceed the 1500t CO_2-e/$m threshold intensity of carbon emissions. Still other pipelines will exceed this threshold over the operating life of the pipeline;
- as highlighted previously, gas transmission pipelines might not be able to immediately pass on increased costs imposed by the CPRS and could experience significant losses in asset value. This arises due to the long term nature of contracts that are necessary for the industry to be viable. Securing finance for the construction of a gas transmission pipeline requires long term contracts be entered into with shippers. Whilst different pipelines have different terms, in the absence of legislative (and regulatory) backing for the pass through of carbon related costs, gas transmission pipeline owners could experience significant losses in asset value through the implementation of the CPRS;
- gas transmission companies have significant sunk capital costs – due to the capital intensive nature of gas transmission pipelines and the reality that these assets have few (and inherently less valuable) alternative uses other than natural gas transportation;
- gas transmission pipeline companies do not have significant economically viable abatement opportunities available to them – as highlighted above, gas transmission pipelines already minimise emissions.

In APIA's view, this assessment against the criteria in the Green Paper highlights a number of concerns with protecting 'strongly affected' industry. In essence, APIA believes that assistance should only be provided where it is compatible with the

[9] Appendix D groups the pipeline transport industry with other forms of transport such as rail, which obscures the actual intensity of transmission pipelines.

underlying objective of the CPRS – namely to achieve economic efficiency in the pursuit of emissions reductions (that is, to achieve a given level of abatement at minimum economic cost).

This in turn highlights some of the fundamental weaknesses of the model in the Green Paper for strongly affected industry as:

- the criteria will inevitably induce distortions to commercial activity that is contrary to achieving economic efficiency; and
- the approach adopted in the Green Paper overlooks the legitimate and necessary role for Government to play in minimising the uncertainty and transaction costs associated with the introduction of the CPRS.

Perverse incentives

The proposal for assistance to strongly affected industries has considerable risks that are inconsistent with CPRS objectives. An example of the perverse incentives created by the criteria are provided by the gas transmission industry itself. Gas transmission pipelines may become eligible for strongly affected industry assistance, by changing the expansion profile of a gas pipeline – relying for example on greater (and more carbon intensive) compression in preference to looping (that is more efficient but will reduce the carbon intensity of gas transmission).

To remedy perverse incentives and other negative outcomes associated with strongly affected industry assistance, this assistance should be phased out as quickly as possible (that is in a timeframe that is compatible with achieving economic efficiency in the pursuit of emissions reductions). Entities that are disadvantaged by contracts that do not allow for cost pass through must be acknowledged in legislation to allow costs to be passed through or otherwise be compensated for the loss that they suffer.

Recommendation 11: Assistance to strongly affected industries should be phased out as quickly as possible.

CPRS revenue

The CPRS will generate a significant new source of taxation revenue for the Australian Government. Australia's response to climate change and the Australian economy will benefit if this revenue is used to correspondingly alleviate the tax burden across the economy so that the CPRS does not increase the ratio of tax to GDP.

Revenue should be used to address problems with the operation of the CPRS and to ameliorate regressive impacts on lower income consumers but, beyond that, should be

used to reduce other components of the tax burden on the economy. Hypothecation of CPRS revenue to climate change initiatives must be avoided. Climate change initiatives or initiatives to support a particularly technology should be prioritised in the wider budget context that encompasses consideration of the competing demands of all spending proposals.

Recommendation 12: Revenue generated from the CPRS should be used to address economic problems associated with the operation of the CPRS and to ameliorate regressive impacts on lower income consumers but, beyond that, should be used to reduce other components of the tax burden on the economy.

Conclusion

The gas industry and gas transmission pipelines are well placed to play a key role in managing the transition of the Australian economy to carbon efficiency – that is – reducing GHG emissions at minimum cost to Australia's longer term prosperity. This can only be achieved if the CPRS settings:

- maximise economic growth while including the CPRS emissions cap and trajectory as part of the economic mix;
- minimise economic distortions attributable to the CPRS; and
- use the carbon dividend to achieve a corresponding reduction to the tax burden across the Australian economy.

Gas is an abundant source of low emissions energy for Australia. Gas transmission pipelines (and the gas industry more broadly) have an important role to help Australia transition to a less emissions intensive (that is more carbon efficient) economy.

APIA would like to thank Synergies Economic Consulting for its assistance in preparing this submission.