

1 December 2008

Manager - Energy Efficiency Compliance and Reporting
Department of Resources, Energy and Tourism
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Via email: energyefficiencyopportunities@ret.gov.au

Re: Exemption of electricity generators and electricity and gas transmitters and distributors from participation in the Energy Efficiency Opportunities Program

APIA welcomes the opportunity to respond to the consultation paper on exemption from the Energy Efficiency Opportunities Program, which was issued by the Department of Resources, Energy and Tourism.

The stationary energy supply sector is acutely aware of its energy usage and, in its operations, seeks to maximise energy efficiency.

In particular, the gas transmission industry is in the business of delivering energy, and the less energy used in providing that service, the more competitive and efficient is the energy delivery. Clearly, the industry has sufficient economic incentive to maximise energy efficiency.

It should be noted that the Carbon Pollution Reduction Scheme (CPRS), when it is introduced in 2010, will impose structural change on the Australian economy, which will reduce energy use. The CPRS will, therefore, provide further fiscal incentive for participants in the stationary energy supply sector to achieve energy efficiency gains.

Therefore, APIA supports Option D - Permanently exempt or exclude the energy supply sector from the EEO program - as the most appropriate option.

However, given that the final details of the CPRS are yet to be released, APIA members could agree with Option C - Extend the exemption of the energy supply sector until 30 June 2013. This would allow for completion of the first five-year review for EEO and for the impact of the implementation of CPRS to be better understood.

Yours sincerely



CHERYL CARTWRIGHT
Chief Executive



Introduction

APIA is the peak national body representing the interests of Australia's transmission pipeline sector. APIA's 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 welcomes the opportunity to comment on the future of the current exemption of electricity generators and electricity and gas transmitters and distributors from participation in the Energy Efficiency Opportunities Program (EEO).

Prior to commenting specifically on the EEO, APIA has a concern with the information presented in the discussion paper regarding unaccounted for gas. Specifically, on page 4 the discussion paper states:

Gas transport uses gas to power turbines for compressors and there are losses during transmission and distribution, known as unaccounted for gas. Unaccounted for gas is the quantity of gas flowing into the network that is not accounted for by deliveries, use by the network operator, or by other known dispositions of gas during the period. An analysis of data from 2005 estimated that unaccounted for gas was 9 PJ/year, equivalent to 0.9% of throughput for transmission pipelines and 9 PJ/year equivalent to 2.4% of throughput for distribution networks.

This statement is wrong in the case of gas transmission pipelines. In the gas transmission industry, unaccounted for gas arises solely from metering error, typically being taken to be +/- 1%. As can be inferred from the metering error range, equally often as gas 'disappears' during the transmission process, gas can 'appear' during the transmission process. The gas transmission industry has procedures in place to accommodate unaccounted for gas commercially. It is inappropriate and technically inaccurate to refer to this metering error as losses for transmission gas pipelines.

It would be appreciated if this error could be corrected. APIA is happy to provide more information on this matter if requested, however it is not strictly relevant to the discussion paper and will not be dealt with further in this submission.

Energy Use in the Gas Transmission Industry

Australia's transmission pipeline infrastructure comprises approximately 33,000km of transmission pipelines, of which some 25,000km are high-pressure gas transmission pipelines. These high-pressure gas transmission pipelines span the significant distances between Australia's gas fields and its population and industrial centres, supplying the nation with 1158 PJ (petajoules) of natural gas

that accounted for 20% of Australia's primary energy consumption in 2006-07. One PJ of natural gas is the energy equivalent of about 43,000 tonnes of black coal or 29 million litres of petrol.

The transportation process of this gas uses energy, mainly through the use of compression to create pressure differentials to drive the gas through the pipeline. The amount of energy used by pipeline companies is variable, depending on distance, operating pressures, magnitude of compression and other factors.

Potential for the gas transmission industry to achieve energy efficiency improvements under EEO

Businesses participating in the EEO are required to undertake detailed assessments in order to identify cost-effective opportunities to improve the efficiency of their energy use, with a financial payback of up to four years. Common practice in the gas transmission industry, and the stationary energy sector in general, is to recover capital costs over much longer periods than four years.

Consultation with the gas transmission industry indicates that in excess of 90% (in some cases above 95%) of a gas transmission pipeline's total energy use is accounted for by the consumption of gas to drive compression. The remaining energy use is largely comprised of maintenance vehicle fuel usage, other travel (such as air travel) and general office usage.

The gas transmission industry, as with other participants in the energy supply sector, conducts its business in the supply of energy and closely analyses its energy usage. Given that the overwhelming majority of its energy use is through compression, the gas transmission industry installs new compression infrastructure based on two main criteria, energy efficiency and cost. Hence the gas transmission market already ensures economic and energy efficiency is maximised. After the CPRS has been introduced, some gas transmission companies could consider using looping rather than compression to increase the amount of gas being transported, depending on the cost of emissions.

The gas transmission market is largely based on long-term contracts, and the energy use of a pipeline contributes to the total cost of the transmission service being provided. It is in the interest of a pipeline owner to undertake cost and efficiency improvements that will deliver operational savings, to improve competitiveness and to achieve a higher margin.

In the case of regulated pipelines, where tariffs are approved by the Australian Energy Regulator (AER), the AER regulates to keep costs as low as possible, leading to decisions by pipeline companies that maximise energy and economic efficiency.

Similarly, in the case of unregulated pipelines, which are involved in providing competitive services, energy use within the company is an element of the competition that needs to be addressed. Failure to do so will see shippers seek transmission services from other providers. Therefore, in such case, competition keeps prices down and energy costs as low as possible.

In this environment, it is the assessment of the gas transmission industry that the energy efficiency opportunities that could be made by the industry do not fit the criteria to be mandatory under the EEO program. The EEO program would simply impose another set of assessment and reporting requirements on the gas transmission industry.

¹ ABARE Energy Update 2008, p5

The EEO Program and the Stationary Energy Sector

As set out above, the Stationary Energy Sector's business is the supply of energy and, as a result, it is highly aware of its own energy use. APIA considers that the EEO Program presents real opportunities to other sectors, such as manufacturing, which might not be as sophisticated in their energy use, but in the case of the Stationary Energy Sector it is unlikely to achieve real benefits.

The stationary energy sector is built on assets that have long lifetimes and are capital intensive. Returns on capital expenditure are often regulated, and are mandated to be recovered over the economic life of an investment; typically more than 30 years. Significant energy efficiency opportunities for this industry would be unlikely to demonstrate a financial payback period of under four years.

The Carbon Pollution Reduction Scheme (CPRS)

The Government's CPRS, commencing in 2010, will place a price on carbon emissions. As carbon emissions are a waste product from that part of the stationary energy industry that generates energy from fossil fuels, it should be expected that the CPRS will provide a further financial incentive to reduce energy use, thereby reducing emissions across the economy and in the stationary energy sector.

The CPRS will also impose new costs on the stationary energy sector. APIA does not consider it appropriate for the EEO to impose another burden on the sector when the CPRS is to commence and likely to achieve similar outcomes in the near future.

Options for the future treatment of the stationary energy supply sector under EEO legislation

In the absence of opportunities for the stationary energy supply industry, and the gas transmission sector in particular, to make the efficiency improvements sought by the EEO program, APIA considers option D put forward in the discussion paper to be the most appropriate, to permanently exempt or exclude the stationary energy supply sector from the EEO program.

Given that the CPRS is expected to provide additional financial incentive to improve energy efficiency, APIA would also find option C acceptable, that is, to exempt the energy supply sector until June 30 2013 to allow for the completion of the first five years cycle program review for EEO and the implementation of CPRS.