

Submission by The Australia Institute concerning:

**Department of Climate Change Discussion Paper 4—
Treatment of new waste coal mine gas power
generation in the RET**

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Department of Climate Change Discussion Paper 4— Treatment of new waste coal mine gas power generation in the RET

Overview

This submission template should be used to provide comments on:

Department of Climate Change Discussion Paper 4—Treatment of new waste coal mine gas power generation in the RET

The purpose of this discussion paper is to outline the key issues regarding whether electricity from new waste coal mine gas generation projects should be included in the RET scheme, and to encourage input on these issues from individuals, businesses and organisations to inform the review process.

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Submission Instructions

Submissions should be made by **close of business 28 January 2010**. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address - **RET@climatechange.gov.au**.

Submissions may alternatively be sent to the postal address below to arrive by the due date.

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Introduction

The conversion of Waste Coal Mine Gas (WCMG) into electricity is an efficient use of a scarce natural resource. The only two alternatives to such conversion are to vent the methane straight into the atmosphere or burn (flare) it before doing so. The proposed replacement of the NSW GGAS scheme with the CPRS and RET will result in the cessation of new investment in electricity generation from WCMG. The framing of the Department's Discussion Paper Number 4, *Treatment of new waste coal mine gas power generation in the RET*, serves to conceal a simple question, namely: *Why have we developed a suite of new policies which will encourage the flaring of WCMG rather than its use for power generation?*

Furthermore, not only does the RET have the perverse consequence of encouraging flaring of WCMG over its use for electricity generation, the new policy actually replaces the existing NSW scheme which has led to the development of a strong and growing WCMG generation industry in Australia. The end to the growth of this industry is described by the Commonwealth as follows:

The cessation of the New South Wales Greenhouse Gas Abatement scheme (GGAS) and transition to the Carbon Pollution Reduction Scheme (CPRS) may impose significant cost on existing electricity generators using waste coal mine gas. (p.3)

The discussion paper makes repeated reference to the possible administrative difficulties associated with the modification of the RET to ensure that WCMG is used to generate electricity rather than simply burnt.

The addition of new waste coal mine gas generation under the RET would result in increased complexity in administering the RET scheme. (p.6)

And

Including new waste coal mine gas generation would exacerbate the complexities for the Regulator in administering the RET scheme. (p.6)

While these administrative costs should of course be considered, this consideration should occur within the context of the benefits associated with such modification, in particular the jobs and investment associated with investment in such technology. Rather than provide a cost-benefit analysis of modifying the RET, the discussion paper focuses solely on the costs.

Given the commitment of state and federal governments to the creation of green jobs it seems unusual that the replacement of the existing GGAS scheme with the CPRS would encourage coal mines to burn their WCMG and then import emissions credits from other countries rather than invest in the onsite conversion of waste gas into useable electricity.

1) Transitional issues

The government has proposed to allow existing WCMG generators to earn RECs only until 2020, and to exclude any new generators from earning RECS. This is described as a 'transitional measure' in the discussion paper but it would be more accurate to describe these arrangements as a 'phase out' because the only 'transition' that is envisaged is an end to new investment in WCMG generation and, ultimately, the abolition of the industry post 2020.

Unless the state and commonwealth governments are content to see the phasing out of WCMG and its replacement with flaring, it seems that a new set of genuine transition arrangements needs to be developed to ensure that the market-based outcomes achieved under the NSW GGAS scheme can be continued under the proposed CPRS/RET suite of policies.

2) Recommendations for reform of the treatment of WCMG generation

Working on the assumption that state and commonwealth governments would prefer to see WCMG converted into electricity rather than flared and converted into waste heat, there are two related issues that need to be addressed with the current design of the RET.

- WCMG generation should be eligible to receive RECS until 2030.
- New WCMG generation facilities need to be eligible to receive RECs.

These two changes are obviously interrelated as new investments in WCMG will not be economically viable unless they can recoup RECs beyond 2020. Similarly, it is important to note that some older WCMG plants are likely to come up for refurbishment between now and 2020 and again it would not be economically viable to proceed with such refurbishment if RECs were not available post 2020.

The departmental discussion paper seeks advice on how an annual limit on the number of RECS for an expanded RET target could be calculated but it is not clear why such a target needs to be determined in advance. On the contrary, it would be simpler and more efficient to simply provide the required number of RECs to the WCMG generators based on their actual generation and in turn increase the obligation on the retailers accordingly.

Given that, by definition, the capacity of WCMG generators to generate electricity is limited by the available supply of waste gas there is no possibility of WCMG generators gaming the system. Furthermore, the small scale of WCMG generation, relative to wind generation for example, means that the WCMG generators will be price takers with the price of RECS determined by the economics of the wind and renewable energy industry. To that end, any new WCMG plants that are built will, by definition, have a marginal abatement cost lower than that of the price of wind.

3) Conclusion

Policy should be evaluated primarily in terms of the outcomes it delivers. The abolition of the NSW NGAS scheme and its replacement with the CPRS/RET would result in such a significant shift in the incentives paid that the currently profitable WCMG generation industry would be replaced with an increase in the practice of simply flaring natural gas to produce waste heat instead of useful energy, and generating additional electricity from the existing higher emission sources with consequent negative implications for Australia's emission abatement effort..

Every kilowatt of electricity supplied by the WCMG generators to the grid displaces the generation of greenhouse gas emissions.

Energy market reform and greenhouse policy are complex areas of public policy. It is unlikely that those who designed the current RET/CPRS set out to encourage coal mines to burn their waste methane rather than use it to generate electricity, but that is precisely what is being proposed. This problem can be simply fixed by ensuring that existing and newly built WCMG generators are eligible for RECS until 2030. The small size of the WCMG generation sector is such that any increase in electricity prices will be trivial in comparison to the other trends and policies currently influencing the residential electricity price.