

Draft Submission to the Review of Climate Change Policies

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Opening

Local Government NSW (LGNSW) is the peak body for local government in NSW, representing NSW general-purpose councils, associate members including special-purpose county councils, and the NSW Aboriginal Land Council. LGNSW facilitates the development of an effective community based system of local government in the State.

LGNSW welcomes the opportunity to make a submission in response to the Australian Government's *Review of climate change policies*. The Australian Government has set a target to reduce carbon emissions 26-28 per cent below 2005 levels by 2030 and committed to the Paris Agreement, an international framework for action on climate change. This Review is part of the Government's commitment to investigate the effectiveness, impacts and opportunities of existing policies and a potential long-term emissions reduction goal post-2030.

Local government has already shown a willingness and enthusiasm to mitigate or reduce its emissions, and the emissions of communities. Over the past two decades local government has actively engaged in programs to reduce carbon emissions from council operations and to implement emissions abatement programs in communities.

Australia is very vulnerable to the impacts of climate change and even a 1.5°C increase in warming will have severe impacts for local government to manage. Climate change has the potential to damage council assets, cause serious disruptions to the delivery of council services, generate unbudgeted financial impacts and affect the wellbeing of the community, particularly those vulnerable to weather extremes. NSW local government is prioritising adaptation to avoid the worst impacts. More than 82% of councils have undertaken a climate change risk assessment and are implementing adaptation responses.

Climate change poses significant disruption to our wellbeing, economy and to the natural environment. The Department of the Environment and Energy's discussion paper reviewing Australia's climate change policy lists emission reduction policies that affect five sectors of the economy. However, it lacks analysis of whether these policies are achieving additional carbon abatement and what impacts these policies might have on society and the ecosystem system services we rely on. There is therefore little indication of the effectiveness of these policies (both realised and projected outcomes) in achieving Australia's 2030 targets and Paris Agreement commitments. LGNSW believes such analysis and transparency would have been helpful to allow a more informed submission.

LGNSW's submission focusses on the key policies that impact local government and the interactions local government has with other the sectors rather than addressing each question posed by the review paper. Please note that, to meet the consultation deadline, this submission is provided in draft form in anticipation of LGNSW Board consideration in June 2017. LGNSW will advise the NSW Department of Environment and Energy of any amendments to the submission at that time.

The Paris Agreement

The Paris Agreement provides a framework for countries to take action on climate change with a goal of limiting global average temperatures to below 1.5°C above pre-industrial levels. The Paris Agreement focusses on reducing carbon emissions as well as adaptation and resilience to climate impacts. The two strategies are complementary; however the Department's review is focussed on emission reduction policies.

LGNSW recommends an integrated approach to mitigation and adaptation policies to boost their efficacy and avoid inconsistencies and conflict.

Australia's emissions reduction policies

NSW local government has accessed Australian Government programs including the Emissions Reduction Fund, Community Energy Efficiency Program (ceased 2016), and the Local Government Energy Efficiency Program (ceased 2014). This was for a range of emission reduction programs such as building/facility energy efficiency, renewable energy, street lighting improvement and waste management projects.

Energy Market Reforms

There are significant regulatory and institutional barriers to the deployment of distributed generation or decentralised energy. The electricity market was designed for a centralised energy system. This penalises decentralised energy by imposing centralised energy market and administration costs for generation that uses little of the transmission networks. These costs and regulation are out of all proportion to the scale of the generation, providing little incentive for decentralised energy developers to enter the market. This has been highlighted recently by the City of Sydney's request to the Australian Energy Market Regulator for a rule change on local generation network credits.

LGNSW supports the deployment of local renewable energy generation and other low-carbon energy options. LGNSW seeks energy market reforms to improve the integration of distributed energy into the market, including reducing costs and regulatory barriers to network connection.

Emissions Reduction Fund

The Department's review lacks any analysis on whether the Emissions Reduction Fund (ERF) is an effective tool and whether the emission reductions are additional to what would have occurred without the fund. The focus on lowest-cost emissions reduction has not translated into best value abatement with a failure to attract large-scale projects.

An analysis of NSW local government participation in the Emissions Reduction Fund shows 17 projects that have so far abated 116,173 tonnes of carbon emissions. The majority of these projects are in the waste sector with 9 landfill gas capture projects, 4 source separated organics projects and 2 alternative waste treatment projects. A further 2 projects are carbon farming initiatives using the sequestration and reforestation methodologies. This shows local government is consistent with other sectors and focussed on land-based abatement. Projects that aim to improve the efficiency of electricity consumption, which is the largest contributor to Australia's emissions at 35%, have not been captured by the ERF.

This modest uptake of the ERF by NSW councils does not indicate the full potential for emission reduction in the local government sector. There are a number of missed opportunities as the design of the Emissions Reduction Fund does not encourage these projects, plus there are other institutional barriers. These missed opportunities include street lighting upgrades, buildings efficiency, waste to energy and waste diversion projects.

The relatively high emissions reduction threshold of 2,000 tCO₂e per year to participate in the Emissions Reduction Fund means that for many local government projects, aggregation is required. This increases the administration component of managing an ERF project significantly through auditing and compliance costs. Barriers to participating also include the

reverse auction process that means that no upfront capital is available and the relatively short contracts of 5 years limiting investment in large, capital-intensive projects with longer payback periods.

Further analysis of the Emission Reduction Fund is required to determine if it is an effective policy instrument. LGNSW supports a move to a polluter pays market mechanism such as an emissions intensity scheme rather than financing emissions reduction through limited public funds.

Sector specific issues

Electricity Generation

The electricity sector has an important role in reducing carbon emissions as it accounts for 35% of Australia's total emissions. The Department's discussion paper notes that an independent review is underway into the future security of the national electricity market (the 'Finkel Review') which will input into the review of climate change policies. The preliminary report of the Finkel Review makes a number of findings in relation to emissions reduction in the electricity sector, including that the current policy settings of the Emissions Reduction Fund, Safeguard Mechanism and Renewable Energy Target do not provide a clear pathway to the level of reduction required to meet Australia's Paris commitments. Issues raised include:

- The Emissions Reduction Fund has not been successful in attracting large-scale energy efficiency projects.
- The Safeguard Mechanism for the electricity sector is ineffective as it is set well above the current level of emissions from the sector.
- The Renewable Energy Target does not go beyond 2020 and has led to investment uncertainty in the electricity sector.

The preliminary report also notes that the Government's review of climate policy settings, namely this review, is expected to clarify the electricity sector's role in helping meet the 2030 emissions reduction target. However, the Department's review lacks discussion or analysis of the relative costs and benefits of possible policy solutions.

LGNSW calls for due consideration of other policy solutions to reduce emissions in the electricity sector such as an emissions intensity scheme. LGNSW also calls for the Australian Government to provide certainty for investors, and increase the percentage of renewable energy and extend the timeframe of the Renewable Energy Target.

Built Environment

Australian households are responsible for 12% of emissions and small to medium-sized enterprises are around 7%. As a consent authority, local government plays a role in advancing the energy efficiency of buildings. The National Energy Productivity Plan calls for a national collaborative approach to commercial and residential building energy ratings and disclosure.

However, the National Energy Efficient Building Project identified that under-compliance with building energy efficiency requirements is widespread across Australia. It is not enough to require participation and disclosure in these schemes.

LGNSW recommends that any national commercial and residential building energy ratings and disclosure schemes fund compliance to ensure the integrity of the program and that efficiency targets are realised.

The built environment sector is also a good example where mitigation and adaptation strategies should be combined to enhance overall outcomes. **LGNSW recommends an approach to building rating schemes that also considers improving the resilience of building stock as well as energy efficiency.** This may include such measures as installing insulation, ceiling fans, window shutters, gutter guards etc.

Waste Sector

The waste sector represents around 2% of Australia's carbon emissions. To date, the Emission Reduction Fund has contracted 130 solid waste projects. This includes 9 source separated organics projects, 19 alternative waste treatment projects and 102 landfill gas projects including legacy landfill sites. The landfill gas projects represent around 14% of all ERF contracts.

Landfill gas projects have the potential for perverse outcomes where overall emissions are increased when landfills are managed to increase methane production. Capture of landfill gas is between 41% to 94% effective according to one study¹. Fugitive emissions may be higher if the landfill is operated to increase emissions which are then not effectively captured.

LGNSW recommends a review of the landfill gas capture methods to ensure that emissions are not being increased overall.

Local government could contribute to demonstration of advanced energy through waste to energy projects. While there are a number of waste to energy systems operating in Australia they are based on the combustion of landfill gas and bagasse. There is large potential to recover energy from the bulk urban solid waste stream. Barriers to waste to energy generation that would need to be addressed to encourage the development of these projects include:

- A restrictive waste to energy policy in NSW.
- A long and expensive process to enter into power purchase agreement established with an energy distributor.
- Poor financial incentives to enter into the market.
- Unfavourable public perceptions.

LGNSW recommends removing barriers to waste to energy projects to allow greater use of bulk urban waste and reduce the need for landfill.

Conclusions

LGNSW's position on reducing carbon emissions is that this is best achieved through a polluter pays market mechanism, rather than financed through limited public funds. Measures to reduce emissions should come from all sectors of the economy including energy generation, mining, transport, waste, buildings and agriculture. LGNSW also supports policies that promote the use and further development of renewable energy; and practices that conserve energy and/or increase energy efficiency. Complementary policies also need to focus on adapting to the impacts of climate change.

¹ K. Spokas a, J. Bogner b, J.P. Chanton c, M. Morcet d, C. Aran d, C. Graff a, Y. Moreau-Le Golvan e, I. Hebe f (2006) Methane mass balance at three landfill sites: What is the efficiency of capture by gas collection systems? *Waste Management vol 26 pp516–525*

Businesses need confidence that emissions reduction policies and the mechanisms to achieve them are consistent with Australia's international commitments and will not change drastically in the future. NSW local government has also identified that shifting policy settings are a barrier to climate change action. There is strong public support for climate change action and bipartisan agreement on climate policy is essential so that other levels of government, industry, and the market can make informed decisions around investment in emissions reductions and manage climate risks with an increased level of certainty.