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The Secretariat
Clean Energy Finance Corporation
Department of the Treasury
Canberra ACT 2601

By email: cefc@treasury.gov.au

Dear Sir/Madam

The Australian Coal Association (ACA) welcomes the opportunity to make a submission to the Clean Energy Finance Corporation (CEFC) Expert Review Panel.

The ACA represents Australia's black coal producers which play a fundamental role in our economy. Black coal is Australia's second largest export industry (worth $43.1 billion in 2010-11), directly employs over 40,000 people and provides the fuel for around 55% of our electricity (77% with brown coal). ACA members are proactively investing in solutions to reduce emissions from coal use, including through the coal industry's voluntary $1 billion COAL21 Fund which is supporting the demonstration of low emission technologies such as carbon capture and storage (CCS).

The ACA recognises that meeting Australia's emissions reduction targets will require a fundamental and unprecedented transformation of our energy sector – and this is not something that will be delivered by the Government's carbon tax alone. It is therefore critical that tax revenue is invested in the development and deployment of a portfolio of solutions that will provide secure, reliable and low emission energy supply for the future.

With $10 billion at its disposal, the CEFC has the potential to play a role in delivering these solutions and thereby contribute to the broader objectives of the Government's Clean Energy Future Plan. The success of the CEFC in realising this potential will be enhanced only if it has the flexibility to invest in all low emission technologies, including CCS.

Scope of the CEFC - Carbon Capture and Storage

We believe the decision to exclude CCS from accessing the CEFC is inconsistent with the potential of CCS to contribute to Australia's domestic abatement efforts and potentially contrary to Australia's strategic and economic interests as the world's largest exporter of coal and a major exporter of liquefied natural gas (LNG).

Including CCS in the CEFC's scope would represent an opportunity for Australia to use carbon tax revenue to contribute to the development of a technology which will be an essential part of a global response to climate change. The International Energy Agency (IEA) has found that a ten year delay in the availability of CCS would increase the cost of achieving a 450 Scenario by **$1.14 trillion** between now and 2035. The IEA concluded that ***"intensive investment and effort to demonstrate the commercial viability of CCS is the rational course of action for governments seriously intent on restricting the average global temperature rise to no more than 2°C"***[1].

[1] International Energy Agency, *World Energy Outlook*, 2011

CCS will be a particularly important part of Australia's domestic abatement efforts. It is the only technology available to significantly reduce emissions from the use of coal and gas, which account for almost 92% of Australia's electricity generation, as well as from industrial processes such as cement and steel manufacturing and natural gas processing associated with LNG production.

The potential contribution of CCS to meeting Australia's emission reduction targets was acknowledged in Treasury's modelling of the Government's Clean Energy Future Plan. Treasury found that CCS applied to coal and gas could account for around 30% of Australia's electricity mix by 2050. It also found that without CCS, domestic emissions would be higher by 25 Mt in 2050 and the estimated impact of carbon pricing on the level of gross national income (GNI) would be 0.5% larger.

However, the Treasury modelling may only tell a small part of the story as did not also model the role of CCS beyond the electricity sector. With emissions from the LNG sector set to grow to 19% of Australia's stationary emissions by 2020[2], Professor Garnaut has identified that the application of CCS to emissions from gas liquefaction alone "could make a substantial contribution to Australia's mitigation effort"[3].

Given the enormous potential of CCS in Australia, it is surprising that it has received considerably less funding support than other low emission technologies. Renewable technologies have access to the $3.2 billion managed by the Australian Renewable Energy Agency as well as the estimated $20 billion[4] in indirect support provided by the 20% renewable energy target. According to Treasury modelling, this will provide the foundation for renewable energy to deliver an estimated 40% of Australia's electricity mix in 2050. In contrast, CCS is receiving less than $2 billion to deliver a potential 30% of the electricity mix. The exclusion of CCS from the CEFC exacerbates the current funding imbalance and handicaps the development of a key low emission solution.

The ACA recommends the Expert Review Panel question the exclusion of CCS from its scope and seek to adopt an open, competitive and technology-neutral approach to CEFC investments. This will have the dual-benefit of allowing the CEFC to select the best investment opportunities across all technology options while contributing to the development of the full portfolio of technologies which will play an important role in Australia's 'clean energy future'.

CEFC Investments: A Stage-Gated Approach

The CEFC will necessarily invest in projects which are higher risk and therefore unable to secure commercial financing. Consequently many projects may not be successful. Financing provided by the CEFC should therefore be staged-gated where appropriate to allow the Board to pull back from projects which prove to be a poor investment, consistent with accepted industry practice when considering large investments.

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[2] Carbon Storage Taskforce, *National Carbon Mapping and Infrastructure Plan* – Australia, 2009

[3] Garnaut, R, *Garnaut Climate Change Review - Update Paper Seven: Low emissions technology and the innovation challenge*, 2011

[4] The Hon Martin Ferguson AM MP, "Australia's Resources and Energy Future", June 2010 http://minister.ret.gov.au/MediaCentre/Speeches/Pages/Australia'sEnergyandResourcesFuture.aspx

Productivity Commission Review

Finally, the ACA recommends the operation and effectiveness of the CEFC should be included in the Productivity Commission's review of the carbon tax. This would provide an additional and prudent oversight of the very substantial carbon tax revenue the CEFC will be entrusted with.

ACA Recommendations

In summary, the ACA recommends that the Expert Review Panel:

1. Adopt a technology-neutral approach to investment opportunities, including CCS;
2. Where appropriate, adopt a stage-gated approach to financing high risk projects; and
3. Recommend to the Australian Government that the operation and effectiveness of the CEFC be subject to review by the Productivity Commission.

The ACA would welcome the opportunity to discuss our submission with the Expert Review Panel.

Yours faithfully

Dr Nikki B Williams
Chief Executive Officer
Australian Coal Association