CLIMATE ENERGY FINANCE

Momentum builds: New NSW Treasury guidelines factor price of carbon emissions into assessment of fossil fuel projects

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Treasury's new "NSW Government Guide to Cost-Benefit Analysis (TPG23-08)" is a surprising pleasure to read. There in black and white is something of a breakthrough: a requirement that proponents of projects greater than $10m in value factor in the costs of Scope 1 and 2 carbon emissions, using existing credible carbon market pricing, such the EU emissions trading scheme (ETS) price of €101/t (~A$160/t). As we detail below, this would have been enough to knock Whitehaven Coal's latest coal mine expansion at Narrabri in northwestern NSW on the head – a project approved last April that will pump an additional half-billion tonnes of carbon into the atmosphere. In recognising the need for a formal, high carbon price, the Treasury guidelines also give serious policy support to the federal government's proposed Safeguard Mechanism (SGM) reforms.

Central to CEF's position on energy transition is the clear need for a well regulated, high and rising price on carbon emissions. For finance to be mobilised at the scale and speed required, pricing of all carbon emissions is required, both by Australia and by our trade partners. Vested private interests who make profits from fossil fuels need to pay the full price of their pollution, that is, their direct (scope 1), indirect (scope 2, e.g. electricity) and scope 3 emissions (exported emissions from use of fossil fuels, e.g. emissions from foreign coal and gas power plants burning Australian coal and LNG exports).

There has been a lot of discussion over Federal Climate and Energy Minister Chris Bowen's SGM proposal, which includes a rising price on carbon. Assuming integrity of the scheme and the associated ACCUs can be progressively restored, and system emissions progressively decline over time as a result, we are strongly in favour of implementation of this as a key part of the Federal Government's suite of policies to lift and accelerate climate action ambition – including a yet to be determined 2035 target of, ideally, 75% to align Australia with the science (vs the current newly legislated but not-science aligned 43% by 2030).

The SGM reforms propose to cap emissions costs at A$75/t, rising at inflation +2% annually, taking the price to ~A$130/t by 2030, and then considering a potential linkage to, say the European Union's ETS in the 2026 SGM review. The current EU ETS pricing is €101/t, or ~A$160, up tenfold in just five years.

It's past time the polluters paid. The newly released Woodside Climate Report 2022 perpetuates the self-serving, climate science denying narrative that they are only responsible for scope 1 and 2 emissions, not scope 3, even as they make supernormal war-profits from their LNG exports as western sanctions triggered by the war on Ukraine choke off Russian LNG and gas pipelines. And even as Federal Treasurer Jim Chalmers reminds us that Australians collectively wore $8.5 billion of costs from unprecedented, climate change driven extreme flooding events in 2022 – the “externalities” we collectively pay for thanks to Woodside and its ilk, courtesy of Chairman Richard Goyder and co.

The reason we mention this crappy report is that there is one useful and highly pertinent reference: the document confirms that Woodside uses an internal price of carbon emissions of US$80/t, and that Woodside notes this will likely rise up to US$169/t over the 2032-2036 period, depending upon which International Energy Agency (IEA) climate policy scenario plays out.

But back to the NSW Treasury report. It notes that it is mandatory to undertake Cost-Benefit Analysis (CBA) when producing a business case to support a government funding or regulatory proposal of greater than $10m. The report clearly states that: “Crucially, CBA is not limited to counting outcomes that have financial impacts, produce measurable cash-lows, or contribute to Gross State Product”, and further, relevant to the analysis are objectives that “are expressed in State Outcomes and Premier’s Priorities, legislation, strategies, targets or election commitments.”

This is highly salient. The NSW government’s objective to deliver an appropriately ambitious 70% cut in emissions by 2035 compared to 2005 levels gives a decisive signal that Treasury has formalised in these new guidelines.

CBA is the preferred method for appraising the economic, social, environmental and cultural value of all government policies and proposals. For many years, the absence of any government policy or legislation on how to deal with the externalities of carbon emissions, and hence climate change, were a massive flaw in all state approvals, particularly carbon emissions intensive fossil fuel projects.

We presented the argument for use of globally relevant carbon emissions pricing in our CEF Expert Witness report to Whitehaven Coal’s “**Narrabri Underground Mine Stage 3 Extension Project (SSD 10269)**” of February 2022 and “**Response to additional material**” of March 2022. Using even a weighted average of carbon prices at the time, A$20-146/t, gave an external cost of $2,300 million that utterly and completely swamped the net positive CBA of A$599 million the proponent had documented.

Unfortunately at the time, the proponent was able to dismiss our argument as immaterial, firstly by arguing against any material cost per tonne of carbon emissions, secondly by arguing as though there was more than a single global atmosphere, using an amazing sleight of hand to contend the emissions were spread over the world’s 8 billion population, enabling them to discount the cost side of the equation to include only NSW’s 8 million population share of the global damage they proposed to inflict.

A total farce of extraordinary mathematical gymnastics and illogic. Only a luddite fossil fuel board serving its own interests at the expense of everyone else could use this nonsense to justify the continued externalisation of the costs of their massive pollution as they exacerbate the growing toll of the global climate crisis.

The failure, at that time, to address the NSW Government’s Intergenerational Equity mandate shows the historically entrenched power of the coal industry in our state. Ex-Premier Mike Baird’s ex-chief of staff is now the CEO of the NSW Minerals Council, i.e. the foreign taxhaven-based coal sector’s lead lobbyist. And why does NSW not have an appropriate coal royalty regime which, by our calculations, would deliver a massive one-off $20-25 billion windfall gain in the NSW 2022/23 budget – revenue which could alleviate the energy price and mortgage-related cost of living crisis smashing our state? In Queensland, Treasurer Cameron Dick has introduced a progressive royalty regime that will produce a bonanza in the billions for state coffers. Look no further than the ties of the NSW government to the coal lobbyist-in-chief.

But we digress.

NSW Treasury notes we need an Australian "social cost of carbon", but in the absence of one, recommends "...existing market prices from the market that most comprehensively prices emissions (e.g., the EU carbon permit market) can be used as a proxy valuation" (page 67). Further, like Chris Bowen's SGM, the NSW Treasury says, "While escalation rates vary across different models and methodologies, typical annualised rate increases are in the order of 1.5 to 3%. For simplicity, carbon costs should be escalated at a rate of 2.25% per year in real terms".

NSW Treasury remains unable to acknowledge there is only one planetary atmosphere, stating: "Emissions from the use of products produced in New South Wales but consumed elsewhere, and emissions from materials or inputs sourced from outside of NSW would generally not be included in the CBA." So we still need to progress the idea that those profiteering from the destruction of our planet should pay for the cost of scope 3.

But, one step at a time: while we apparently can't have war-profiteering, corporate tax avoiding, climate science denying parasites held fully to account today – four decades after Exxon proved that human-induced climate warming was a disaster in the making – factoring in the enormous externalised cost of scope 1 and 2 alone, as the new CBA guidelines in NSW require, would have stopped Whitehaven's egregious Narrabri coal mine expansion.

I'll take this win, and add it to the legislated 43% by 2030 national emissions reduction target, Matt Kean's 70% by 2035 target in NSW, the federal 82% renewables by 2030 target, the SGM, and the $15bn National Reconstruction Fund, etc, as some seriously positive steps in the right direction in recent months.

After a devastating decade of policy failure, chaos and denialism under the LNP, this is real, material and welcome progress.