



11 February 2010

Dr John Tamblyn  
Australian Energy Market Commission  
Level 5  
201 Elizabeth Street  
Sydney NSW 2000

**Attention:** Ms Lisa Nardi

Dear Dr Tamblyn

**ERC0098 - PUBLICATION OF A CO<sub>2</sub> EQUIVALENT INTENSITY INDEX FOR THE NEM**

Origin Energy Limited (Origin) welcomes the opportunity to inform the Australian Energy Market Commission's (AEMC's) consideration of this Rule change proposal from the Australian Energy Market Operator (AEMO).

This submission sets out our support for publishing a carbon dioxide (CO<sub>2</sub>) equivalent intensity index of the NEM. When considering the principles for the index, Origin considers it essential for there to be consistency between this index and the index the Commonwealth Government proposes to use for determining the level of generator compensation as part of its proposed Carbon Pollution Reduction Scheme (CPRS).

**Publication of a CO<sub>2</sub> equivalent intensity index of the NEM**

A robust CO<sub>2</sub> equivalent intensity index promotes certainty in the financial markets by providing a reliable reference point for calculating the carbon costs associated with electricity contracts. This index will enable parties to settle their AFMA transactions with confidence and minimum negotiation following commencement of the proposed CPRS.

Origin considers the National Electricity Rules (Rules) are the appropriate place to set out the principles and objectives of the index and, if necessary, to provide AEMO with the power to source any relevant information. The methodology itself is best set out in guidelines, which AEMO should develop subject to stakeholder consultation in accordance with the Rules consultation procedures. When compared to setting out the methodology in the Rules, guidelines provide AEMO with greater flexibility to improve the methodology iteratively. Such opportunities are likely to arise as better quality of information becomes available and areas for improvement become apparent following the practical use of the index.

**Consistency with Commonwealth CPRS methodology**

Origin considers the AEMO's methodology and data sources need to be consistent with those being used by the Commonwealth to determine the level of CPRS generator compensation. Consistency between these indexes minimises the potential for unintended wind-fall gains or losses over and above the intended CPRS compensation



provisions. Such wind-fall gains or losses can skew the relative competitiveness of market participants. This can impede the effectiveness of competition in the NEM's wholesale market, which is not in the best interests of consumers.

#### Information sources

The value of the index depends on the quality and accuracy of the data. AEMO is proposing to use publicly available information, such as the "Fuel resource, new entry and generation costs in the NEM" report prepared for AEMO by ACIL Tasman. It is important that stakeholders have confidence in these public sources.

Given the commercial importance of this index, if there are concerns, then there may be merit in investigating: what type of information may need to be sourced from generators directly; whether that information is classified as confidential; and if so, what actions could AEMO take to preserve the integrity of the index without releasing the confidential information.

#### Start date

To minimise the disruption to the financial markets, it is imperative that the index is operational prior to the commencement of the proposed CPRS. Without an index, AFMA counter-parties are left to: (a) agree between them on an average carbon intensity; or (b) defer to an Independent Expert. AEMO requests an implementation period of approximately 12 months from the date the proposed Rule commences. Origin recommends investigating an approach that reduces this implementation period given the consequences of not having the index in place in time.

#### Conclusion

Publishing a CO<sub>2</sub> equivalent intensity index is likely to enhance the transparency of electricity contract pricing in the NEM. This can promote the efficient investment in and operation of both the physical and financial markets. The development and establishment of this index therefore promotes the National Electricity Objective (NEO) and is in the long term interests of electricity consumers.

If you have any question or would like to discuss this submission please call me on (02) 8345 5250 or Hannah Cole on (02) 8345 5500.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tim O'Grady".

Tim O'Grady  
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Corporate Affairs

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