

A few  
words.

**Ms Lisa Nardi**  
**Australian Energy Market Commission**  
**PO Box A2449**  
**Sydney South NSW 1235**

11 February 2010

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AGL

Dear Ms Nardi,

**National Electricity Amendment (Publication of a Carbon Dioxide Equivalent Intensity Index for the National Electricity Market) Rule 2009.**

AGL welcomes the opportunity to comment on the AEMC's 2009, *National Electricity Amendment (Publication of a Carbon Dioxide Equivalent Intensity Index for the National Electricity Market) Consultation Paper*, 23 December 2009.

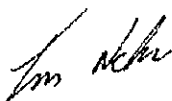
Please find attached AGL's response to the above Consultation paper. AGL supports the introduction of the Carbon Pollution Reduction Scheme (CPRS) and considers that the proposed Rule change will assist the wholesale electric market's transition towards the inclusion of carbon costs. This Index will lead to important streamlining within standard form contracts applicable to wholesale electricity that are being written and traded prior to the introduction of the CPRS.

AGL notes the importance of a singular index for the NEM to support an open and competitive wholesale contract market that is not distorted by sub-regional characteristics. The wholesale electricity price is a function of load size and availability of generation (including transmission capacity) to meet that load. Uplift due to a carbon cost will reflect this competitive environment and applying the average CO<sub>2</sub>e intensity of the NEM, rather than any sub-regional characteristics, is the optimal way to price in this uplift.

AGL support's the AEMCs proactive and timely approach to this Rule change proposal, and looks forward to a punctual introduction.

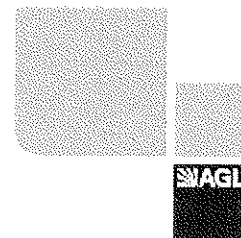
Should your staff or your Department have any questions in relation to AGL's submissions, please contact myself on (02) 9921 2516 or at [tanelson@agl.com.au](mailto:tanelson@agl.com.au), or Simon Kelley, Manager Carbon Policy and Regulation on (02) 8633 7152 or at [skelley@agl.com.au](mailto:skelley@agl.com.au).

Yours sincerely,



Tim Nelson  
Head of Carbon and Sustainability

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## **AGL Submission on the National Electricity Amendment (Publication of a Carbon Dioxide Equivalent Intensity Index for the National Electricity Market) Rule 2009.**

### **1. Introduction**

AGL Energy (AGL) is Australia's leading energy company and Australia's largest privately owned renewable energy generator. AGL is well placed to comment on emissions trading and renewable energy targets because of the diversity of our operations. We operate across the supply chain and have investments in energy retailing, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction. The diversity of this portfolio has allowed AGL to develop a detailed understanding of the risks and opportunities presented by climate change policy, renewable energy targets and emissions trading.

AGL is Australia's largest retailer of gas and electricity with over 3 million customers in New South Wales, Victoria, South Australia and Queensland. AGL has significant investments in upstream energy markets. We own and operate 645 MW of hydroelectric power generation assets, the 95 MW Hallett and 71 MW Hallett 2 wind farms, the Torrens Island gas-fired power station (1280 MW), the Somerton gas-fired peaking power station (150 MW) and a number of landfill gas, biogas and biomass generation facilities. AGL also has a 32.5% equity investment in the Loy Yang A power station. We are currently constructing new hydro and wind assets and developing one of Australia's largest pipelines of renewable projects.

#### **1. Do you consider that the Rules should provide for the calculation and publication of a NEM CO<sub>2</sub>-e Intensity Index?**

AGL considers the Rules should provide for the calculation and publication of a NEM CO<sub>2</sub>-e Intensity Index. This will provide the wholesale market operator a clear authority to publish an Index. It is anticipated this Rule change will reduce uncertainty faced by market participants and contribute to the liquidity of the forward markets. A formal structure regarding calculation methodology and publication frequency will allow market participants to establish an informed view of this key input into future electricity costs.

#### **2. Do you consider that AEMO is the most appropriate body to provide a NEM CO<sub>2</sub>-e Intensity Index for the purposes outlined in the Rule change proposal?**

AEMO house the most accurate data with respect to market dispatch within the NEM. On this basis, it is considered that the market operator is the most appropriate body to calculate and publish the Index as outlined in the Rule change. AGL believes the proposed Rule change will provide clarity and appropriate jurisdiction with respect to AEMO's role.

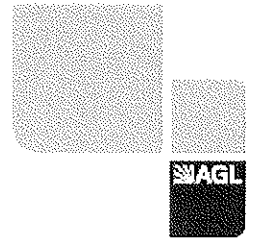
#### **3. Will the proposed Rule change contribute, or be likely to contribute, to the achievement of the National Electricity Objectives?**

The National Electricity Objective, as stated in the National Electricity Law is: to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

1. price, quality, safety, reliability, and security of supply of electricity; and
2. the reliability, safety and security of the national electricity system.

The Rule change will reduce uncertainty faced by market participants and hence will lead to greater efficiency in the wholesale market and subsequently improve outcomes for

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consumers. AGL considers that the Rule change will therefore contribute to the achievement of the NEO.

**4. Do you agree that information regarding the emission factors of generators should be sourced from publicly available information?**

AGL notes that AEMO intends to source the relevant emission factors of generating units from publicly available information. In the interests of market transparency, AGL does not believe inputs to the NEM CO<sub>2</sub>-e Intensity Index should be treated as confidential.

**5. Do you believe that there are better alternative options available for sourcing emission factors of scheduled generating unit and market generation units?**

AGL accepts that many market participants consider there is an existing, adequate process available to AEMO for sourcing emission factors. Whilst AGL supports an approach that imposes the least administrative burden for both market participants and the market operator, the risks of multiple and disparate emission data emerging must be acknowledged. A published NEM CO<sub>2</sub>-e Intensity Index that strays from national emissions measuring and reporting processes may result in a cost pass-through occurring that is not reflective of market costs (and emissions). Consequently, AGL recommends a review process is undertaken at regular intervals, to ensure that AEMO's NEM CO<sub>2</sub>-e Intensity Index is not straying from data used in the national greenhouse accounts and remains an appropriate proxy for carbon uplift.

**6. How frequently would you consider a CO<sub>2</sub>-e Intensity Index should be published by AEMO, e.g. weekly/daily?**

AGL considers that a weekly frequency is a reasonable basis for commencing publication of the NEM CO<sub>2</sub>-e Intensity Index. It is recommended that the frequency is subject to review, based on feedback from market participants and observed behaviour.

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