

22 June 2010

Ms Lisa Nardi
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Email: lisa.nardi@aemc.gov.au

Dear Ms Nardi,

Alinta Energy Limited (AEL) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) 2009, *National Electricity Amendment (Publication of a Carbon Dioxide Equivalent Intensity Index for the National Electricity Market)* Consultation draft determination (released on 23 December 2009).

In principle, AEL supports the introduction of a CO₂e Intensity Index ("CO₂e Index") providing it meets the following objectives:

- is complementary to the legislative framework introduced to set a price on carbon;
- has a sunset clause;
- is 'stable and consistent' in the short term – within the year; and
- is as accurate as possible over the medium term – greater than a year.

On this basis, AEL broadly supports the recommendations in the AEMC's Draft Determination on the basis that the introduction of a CO₂e Intensity Index ("CO₂e Index") will contribute to a well functioning competitive wholesale contract market when a price or tax on carbon is introduced. The AEL considers that by having a legally instituted energy market institution such as the Australian Energy Market Operator (AEMO) set the CO₂e Index benchmark that market participants can reference when striking wholesale energy contracts will provide credibility, transparency, and information, which will promote efficient market operations, and investment in electricity services.

There are several areas which could be improved to promote a more effective process to setting the CO₂e Index.

Firstly, the delay to the introduction of the legislative scheme to price carbon removes the time pressure to implement the CO₂e Index within the next two years. AEL suggests that AEMO's resources would be better prioritised to other market rule areas. Additionally, until legislation is introduced there remains some risk to introducing the CO₂e Index in advance of the legislation's operation.

AEL does not support the requirement of AEMO listing all generating units' emission factors. Listing the generators and the sources of the emission factor utilised in the index provides sufficient transparency and market information for participants.

If AEMO were to publish a generator's emission factor, regardless of the source, the statistic will become 'official' making it a reference point for contract formation as a substitute for the CO₂e Index itself. AEL considers that if the purpose of the CO₂e Index is to provide a NEM emissions intensity benchmark for the purposes of contracting then elevating publicly available information on individual participant's emission intensity to have the credibility provided by being AEMO market data is likely to undermine this purpose. In addition, AEL maintains that the commerciality of participant's actual emission intensity factors is paramount to a well functioning competitive national electricity market. Firstly, emissions intensity change through the year and from year to year. In responding to a carbon market participants are incentivised around: initial investment decisions; and ongoing investment decisions, which may provide improvements to a participant's factor. The AEMO published participant's emission factor is likely to be substituted for the competitive interactions between market participants. AEL maintains that a competitive approach to electricity contract formation is preferable on efficiency grounds.

Importantly, the CO₂e Index is a temporary arrangement for contract purposes as over time participants that sell energy will price in the price of carbon, which will make its way into pricing decisions removing the need for the index. AEL considers that it is critical that the AEMC recommend there be a sunset clause included in the rules to reflect the transitional role of the CO₂e Index.

AEL also considers that AEMO should be required to publish a disclaimer with the CO₂e Index which sets out its purpose as well as explicitly acknowledging that the data that this index will not have the same level of accuracy and precision as provided by generator's reporting under NGERs.

Generally, AEL supports this Rule change proposal as an important publication for the NEM. A CO₂e Intensity Index will provide for increased transparency and contribute to liquidity in the associated markets.

If you have any questions in relation to this question please contact James Reynolds on 07 3011 7646 or 0438 668 680.

Yours sincerely,
Alinta Energy Limited

A handwritten signature in blue ink, appearing to read "S Turner".

Scott Turner
Executive General Manager – Energy Markets