



27 April 2012

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Dear Allan

### **EMISSIONS INTENSITY REPORTING (EII\_CP\_001)**

Alinta Energy (Alinta) appreciates the opportunity to participate in a public consultation process on the proposal by the Independent Market Operator (IMO) to publish an Emissions Intensity Index for the Wholesale Electricity Market (WEM) in Western Australia.

Alinta is an Australian energy company with interests in ten power station assets, which are diversified by geographic region, fuel type, customers and operating mode. Alinta also supplies gas and electricity to around 700,000 retail, commercial and industrial (C&I) and small to medium enterprise (SME) customers in Western Australia, South Australia and Victoria, and employs more than 750 people across Australia and New Zealand.

This submission is made by Alinta for and on behalf of Alinta Sales Pty Ltd, which is a wholly-owned subsidiary of Alinta. Alinta Sales Pty Ltd is registered as both a Market Customer and a Market Generator in the WEM.

### **Background**

The IMO has proposed the publication of a WEM Emissions Intensity Index for the purpose of providing transparent information to the market relevant to the carbon pricing mechanism under the Clean Energy Future Legislation. In considering the details of the proposal, it is worthwhile considering the experience in other markets that have implemented a similar mechanism.

As a national energy market participant, with retail and generation assets across Australia, Alinta sees benefit in, where appropriate, adopting a nationally consistent approach and in learning from the experiences in other jurisdictions. Promoting consistency across jurisdictions in the approach used to establish and publish carbon equivalent emissions intensity indices would appear desirable not only in itself, but also in order to reduce costs for WEM Market Participants that operate in multiple jurisdictions.



Notably, a daily emissions intensity index in the National Electricity Market (NEM) commenced being calculated and published in response to market participants seeking a single and standard reference point of information about the carbon intensity of generation in the NEM so as to assist in determining and accounting for a carbon price in the settlement of forward electricity contracts. This was important at the time the index was developed as significant uncertainty existed for participants that were negotiating wholesale contracts for a period in the future for which there was considerable uncertainty as to whether a carbon cost would also be incurred by the generator in that period. The publication of the index established an industry standard that was to be the basis for the pass-through of carbon costs when (and if) they were incurred.

The Australian Energy Market Commission's (AEMC) July 2010 rule change report makes clear that the NEM CO<sub>2</sub>-e Intensity Index was considered to be a 'transitional tool', necessary given policy uncertainty at the time as to whether a carbon scheme (at the time, the proposed Carbon Pollution Reduction Scheme) would be introduced and the carbon price that would apply.

In such an environment, there were concerns that the absence of a reliable, transparent and consistent Index that could be used to inform commercial decision making in the NEM might adversely impact liquidity in forward electricity contracting, and that this might impede efficient pricing in the wholesale spot market.

#### **Proposed Emissions Intensity Reporting in the Wholesale Electricity Market**

While Alinta does not object to an Emissions Intensity index being calculated and published, given there is now a high-level of certainty about the carbon mechanism and costs into the future, it is not clear that the drivers leading to the development of the NEM CO<sub>2</sub>-e Intensity Index exist in the WEM. In any event, the largely bilateral nature of the WEM, and hence the limited amount of forward contracting that occurs for wholesale electricity, suggests that the role of the proposed WEM Emissions Intensity Index will be minor.

That said, Alinta is concerned that the proposal to publish the average WEM emissions intensity for each half hour Trading Interval runs counter to the rationale for publishing such an index in the first place. This is because the half-hourly information that is proposed to be published would be too 'granular' to be useful, and will therefore be likely to lead to multiple forms of aggregation (e.g. peak and off-peak, daily, monthly etc). This means that there would no longer be a single standard reference point of emissions intensity information – the objective of calculating and publishing such an index in the first place.

Consequently, should the IMO choose to pursue the calculation and publishing of an Emissions Intensity Index, Alinta such an index should be:

- based on publicly available facility-level or generation-type emission intensity information, or otherwise be estimated using the methodology applied in the NEM;
- utilise Sent Out Energy data (in MWh) already held by the IMO; and
- published for each Trading Day



**alinta**energy

Should the IMO require further information on any of the above issues, I can be contacted on 9486 3749.

Yours sincerely

**Corey Dykstra**

Manager Wholesale Regulation

Alinta Energy (for and on behalf of Alinta Sales Pty Ltd)