Carbon Pricing in Australia and impact on liable entities

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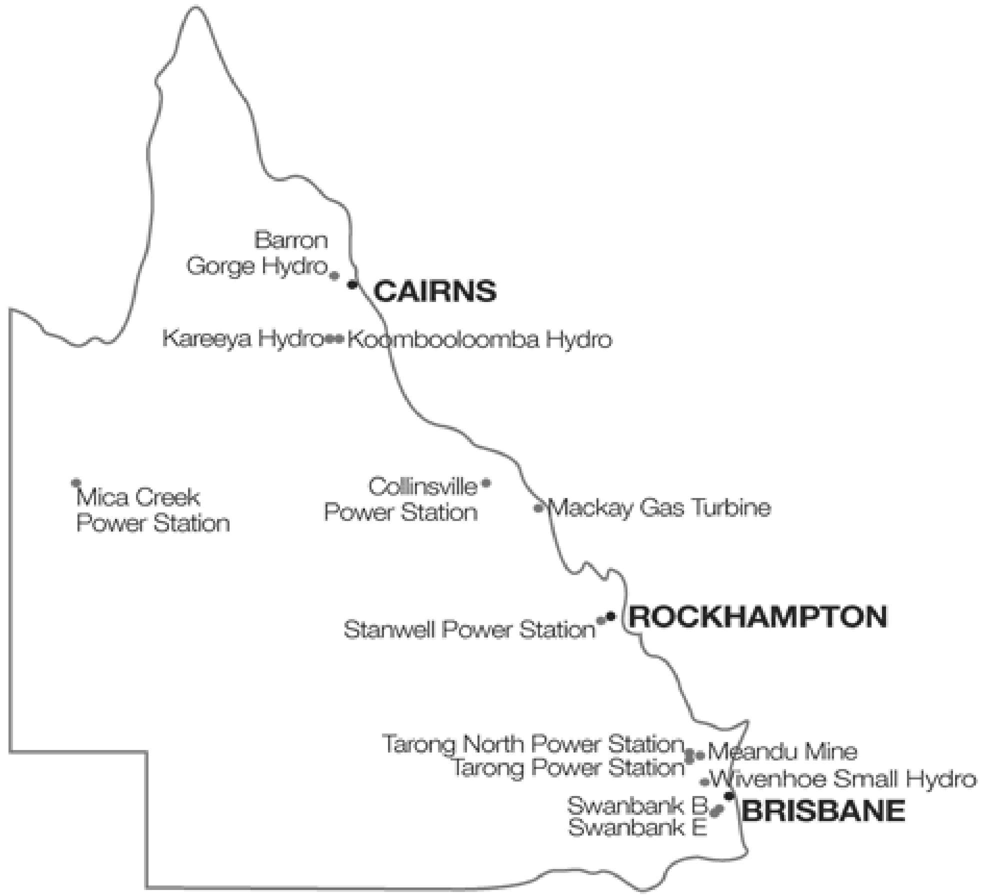
Stanwell Corporation Limited's assets

Stanwell Power Station	1,445 MW
Tarong Power Station	1,400 MW
Tarong North Power Station	443 MW
Swanbank E	385 MW
Mica Creek	318 MW
Northern Hydros and Wivenhoe Small Hydro/Peaking Plant (Mackay Gas Turbine)	184 MW
Total	**4,175 MW**



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Australia's carbon price started 1 July 2012

Clean Energy Act

Key aspects

- **The carbon price**: Fixed price for the first three years and flexible thereafter
- **Reduction target**: At least 5% by 2020 and 80% by 2050.
- **Coverage**: Around 60 % of Australia's emissions ~ 360Mt
- **Offsets**: Fixed price period – up to 5% of liability from domestic CFI credits
  Flexible price period - unlimited CFI credits plus 50% international credits

Implementation assistance

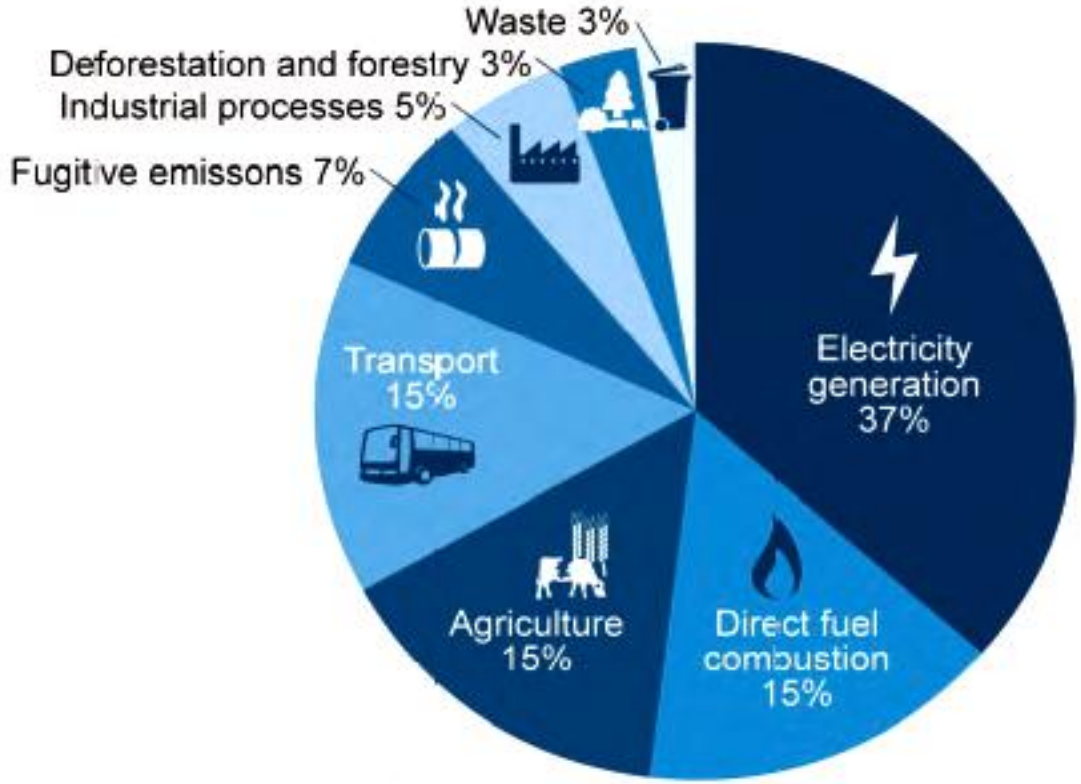
- **Emissions-intensive, trade-exposed** : AU$9.2 billion
- **Coal power** : $5.5 billion over six years,
- **Other business** : $1.3 billion for coal mines, $300m for the steel industry,
- **Households** : $14.3 billion through social security payments etc

Political support

- **The Federal Opposition's position:** Repeal the Clean Energy Act

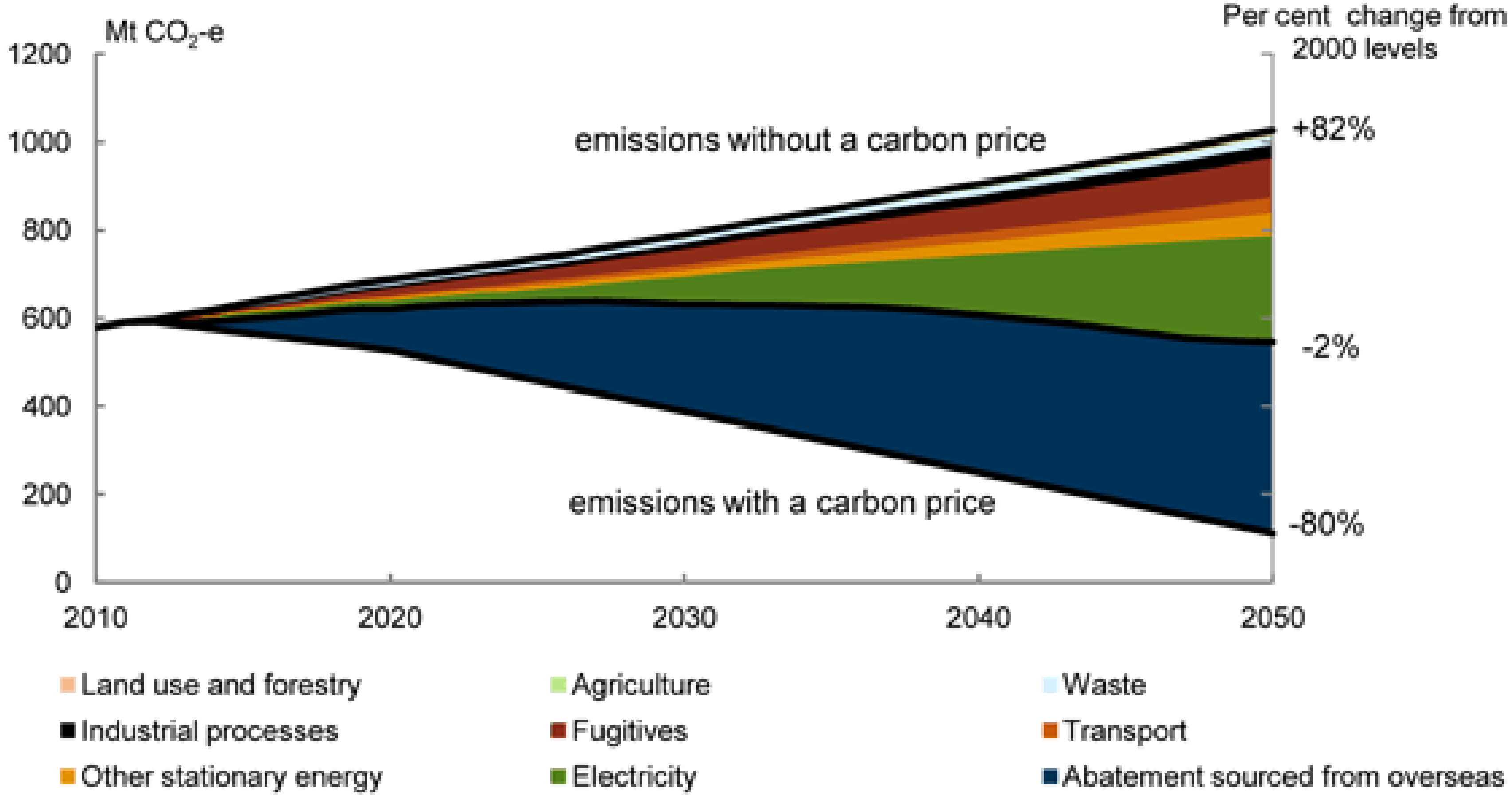
Australian emissions profile 2010-2011

- **Covered sectors:**
  - Electricity Generation
  - Direct Fuel combustion
  - Waste
  - Industrial processes
- **Not covered sectors**
  - Agriculture
  - Transport
  - Fugitive emissions
  - Forestry
- Electricity generation is Australia's largest emissions source



Source: 2009 emissions from the National Greenhouse Gas Inventory 2011

Expected sources of emission reductions



Source: Treasury estimates from MMRF.

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Link between the Australian and EU ETS

- From 1 July 2015 – One way linking
- By 1 July 2018, a full two-way link will be established
- Floor price of $15/t will be removed – the ceiling still remains
- New sub-limit of 12.5% for the use of Kyoto units (CERs)
- Total limit of 50% international permits remains
- From 1 July 2018 EUAs and AEUs create a single market
- Model for future linking arrangements
- Legislation changes are currently in the Australian Parliament

Impact of EU ETS linking on Australia

- No changes within the fixed price period - to 2015
- Liable entities now can purchase EUAs and CERs for later use
- Price of Australian Carbon Units will be the same as EUAs
- Access to a larger market for cost-effective emission reductions
- No price floor may reduce carbon costs for liable entities
- Challenges viability of Australian CFI projects
- Concerns of Australian businesses
  - Lack of consultation with business in the policy making process
  - 12.5% limit for CERs - any further changes?
  - Price ceiling now linked to EU ETS
  - Future of the CFI is unclear –will be subject of treaty negotiations
  - Competitiveness issues for trade exposed industries
  - Dependency on EU market/policy developments and exposure to fraud

Process in the EU and impact on EU ETS liable entities

- One way link – amendment to the registration registry regulation
- Two way link – treaty is required – to be settled by 1 July 2015
- Bilateral treaties are outside the Kyoto Protocol and the ITL
- The two way link will provide
  - Additional demand at a time of allowance oversupply
  - Larger markets can reduce transaction costs and price volatility
  - Important part of the post-2012 international policy architecture

Comparison of the Australian and the EU ETS

Design Element	Australia	Europe
Start Date	1 July 2012 (fixed price), 1 July 2015 start of flexible price period, cap & trade	2005
Targets	Unconditional: 5% below 2000 levels by 2020Depending on international action: 15-25% below 2000 levels Depending on international action: 15-25% below 2000 levels Long term: 80% by 2050	21% reduction from 2005 numbers within the EU ETS capped firms Long term: 80 – 95% below 1990 levels by 2050
Scope and coverage	**~425 Megatonnes covered in 2015** Stationary energy, industrial processes and waste	**~1.9 Gigatonnes covered on 2011** Power stations and heavy industry (aviation from 2012)
Offsets	2012 -2015: Carbon Farming Initiative (ACCUs) 5% of total liability **2015 – 2020: 100% ACCUs, 12.5% CERs and ERUs within a 50% limit for international units**	**2008 – 2020: CERs and ERUs accepted for 50% of EU wide reductions** From 2013: Only CERs from Least Developed Countries

Conclusion

- The removal of the price floor and the surrender charge is welcomed
- Stanwell is concerned about:
  - The lack in consultation before the release of the draft laws
  - Businesses were rushed for comment – less than 5 working days
  - The powers in the draft legislation to impose further sub-limits
- Draft legislation increases regulatory risk for
  - Liable entities operating in the secondary market
  - Current holders of CERs up to their 50% limit to be used in 2015
  - Investors applying a higher risk premium
- Key aspects of the carbon scheme will be out of control of Australian market participants
- Political uncertainty in Australia still remains

thank you

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