

SAHA MOMENTS

Energy and Water Newsletter

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http://www.webwombat.com.au/careers_ed/education/i

The CLIMATE CHANGE ISSUE

SAHA has spent the last few months busy at work researching the key issues that are facing the nation today. One of the issues at the forefront is that of climate change and what it is going to mean for businesses in the future. All the hard work put in by SAHA staff has resulted in the "Impact on the National Emissions Trading Scheme on NEM Prices" report.

This report is now available to purchase, however, this edition of SAHA Moments will give you a glimpse of the issues addressed, and what your company may be facing in the future of climate change and the forthcoming uncertainty.

Emissions Trading and the Future for Energy and Water

The Federal Government is poised to draft legislation of its Australian Emissions Trading Scheme (ETS) later this year, with its full introduction being little more than two years away. Recognised as the biggest regulatory change to confront the Australian economy in many years, it is important for managers make early efforts towards understanding the ways in which the scheme will affect their respective organisations.

This is particularly imperative for electricity generators. Because prices are determined by marginal bids, not by total system cost, there is no guarantee that the total additional costs attributable to emissions trading will be reflected in the electricity price received.

To address these challenges, SAHA and Ventyx have undertaken market modelling to analyse the generation technologies that stand to win, and those that stand to lose under an ETS. The results have important implications for the composition of fleet portfolios, as well as for future generation technology investments.

The significant findings of the study include:

A standout opportunity for the construction of new entry generation plant with low emission intensity exists in Victoria. In this state, there is expected to be the greatest increase in pool prices arising from an ETS, thereby creating the largest differential between pool prices and generation costs.

AFMA and SFE contracts for 2010 and 2011 are currently trading with an emissions passthrough clause. Therefore current trades have been made, and will continue to be made for some time to come, as "energy only". The determination of the passthrough to be applied on these contracts is critical, and windfall gains or losses for market participants may exist.

The margins of generation assets are impacted by the introduction of an Australian emissions trading scheme from negative \$17/MWh to positive \$32/MWh in 2010 and 2011; the first 2 years of the modelling. Over the longer term (2012 to 2020) the change in plant mix will affect thermal generation margins more than renewable, as the additional cost of carbon manifests in the pool market at between 65% and 75% of cost.

In all regions of the NEM pool prices post-emissions trading do not reflect the full value of permits. Half hourly pool prices are predominantly set by plant with emissions intensities of less than 1 kg CO₂-e/kWh. As a result of this, a number of higher-intensity plants (predominantly coal-fired) become financially unviable. Without freely allocated permits these power stations will become stranded assets, and may be shut-down before the completion of their economic life.

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The full report is also available to purchase. For more information, please contact Liz Aitken:
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http://www.mdbc.gov.au/subs/The_River/september2006/images/climate-change.jpg

SAHA's Projects and New Developments

Energy Team

- SAHA is currently undertaking modelling and financial viability assessments for the development of a new gas-fired peaker in QLD, fully incorporating carbon impacts
- The SAHA Energy Team has successfully completed the Carbon report – "Impact on the National Emissions Trading Scheme on NEM Prices"
- SAHA is undertaking the development of a case study into the impact of carbon on debt repayments and credit
- SAHA has successfully completed 3 VRET Audits
- SAHA has also successfully completed a full regulatory roadmap for start-up retailer in all regions of the NEM
- SAHA is busily preparing for the launch of the new SAHA Climate Change practice

Water Team

- **Tasmanian water and wastewater industry regulatory framework** – SAHA has been appointed as the regulatory advisor for the Tasmanian government in relation to the urban water industry reforms. Legislation has recently been passed to effect the recommendations made by SAHA. SAHA developed two discussion papers for the Tasmanian Government to propose reforms to the water and wastewater industry regulatory framework. The discussion papers involved seeking public comment and presenting at industry workshops to seek industry feedback on the proposals made. The major recommendations included:
 - licensing of service provider to formalise the regulatory arrangements;
 - establishing an independent economic regulator to regulate service standards and prices;
 - establishing a customer service standards framework to improve customer service levels;
 - introducing mandatory asset management planning requirements to improve compliance with drinking water quality and environmental standards;
 - creating an Ombudsman to deal with customer complaints; and
 - introducing annual performance reporting to improve transparency and accountability.
- **Water retail entrant** - SAHA recently advised an Australian electricity retailer on the potential benefits, costs and risks associated with entering into the market for the provision of water retail services. This also involved facilitating a workshop with senior management within the organisation.
- **Water transmission company** - SAHA recently advised a large Australian water transmission company on the tariff structures that they should adopt for the provision of their bulk water services. In particular, the advice focused on the benefits and costs of adopting zonal based tariffs, as opposed to the more common postage stamp pricing. The report also assessed the advantages and disadvantages of adopting an instantaneous peak demand tariffs for network usage as opposed to volumetric based prices.

- **Pricing model quality assurance review** - SAHA undertook a quality assurance review of a large water pricing model for a regional grid. The review was required to assess the model logic and assumptions and to ensure that the mechanics of the model reflected generally accepted regulatory concepts. The model was a pre tax nominal building block model.
- **Product and pricing analysis** - SAHA advised a client with regards to the definition of the products that are to be provided by a newly established water grid which also considered the pricing principles underpinning the delivery of those products.
- **Barwon Water** - SAHA is providing Barwon Water with strategic advice in relation to the development of all aspects its 2008 Water Plan (pricing submission) to Victoria's independent economic regulator, the Essential Services Commission. SAHA recently provided Barwon Water with a strategic review of the ESC's Draft Decision which was released in March 2008

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