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28 April 2008

The Hon. Ian Macdonald MLC
Minister for Energy
Greenhouse Gas Reduction Scheme Transition Review
Department of Energy and Water
GPO Box 3889
SYDNEY NSW 2001

By email: ggastransition@dwe.nsw.gov.au

Dear Minister,

**Re: Transitional arrangements for the NSW Greenhouse Gas
Reduction System—Consultation Paper**

Thank you for the opportunity to provide comment on the *Transitional arrangements for the NSW Greenhouse Gas Reduction Scheme—Consultation paper* (Consultation Paper)

ANZ has been assisting its customers to manage their obligations under the Greenhouse Gas Reduction Scheme (GGAS) by trading in NSW Greenhouse Abatement Certificates (NGAC) since 2004. The principal way we have done this is by purchasing NGAC on the spot market and providing these to our customers on forward contracts. This allows our customers to hedge their risk against future price fluctuations.

With the creation of a National Emissions Trading Scheme (NETS) ANZ understands the need to wind up the GGAS, but would also like to stress the importance of providing appropriate transition arrangements so as not to disadvantage those participants who have worked to ensure this has been an effective and functional market. Specifically we would like to provide comment on the transitional timeframe, the arrangements for unused abatement certificates and the timing for ending liability under GGAS.

Transitional Timeframe

ANZ supports the view in the Consultation Paper that fair transitional arrangements need to be in place until at least 2012.

As noted in the Consultation Paper the original GGAS legislation set out emissions targets until 2012, and this was extended until 2020 in 2006. While the Government did communicate to stakeholders at this time that the scheme would cease in the event of a National Emissions Trading Scheme (NETS), until the November 2007 election this was anticipated to commence in 2012 as per the previous Federal Government's commitment.

Project proponents and other market participants, including ANZ, have therefore factored in the scheme running until 2012 when making their investment decisions, purchasing NGAC and entering into forward contracts. We support the view that it will be important that these market participants are not disadvantaged for transacting up to the end of 2012.

Unused Abatement Certificates

To ensure that those who have participated in good faith in the GGAS are not disadvantaged for their investment decisions and NGAC purchases through to 2012, the NSW Government will need to ensure that unused NGAC will be appropriately transitioned into the NETS.

Unused certificates are effectively abatement of greenhouse gas emissions that has occurred, but are over and above GGAS abatement goals to date. As such these can, and should, be able to be used in the NETS. On this basis ANZ's preference is that unused NGAC should be converted to NETS permits on a one-for-one basis per tonne of emissions.

Ending of Liability Under the GGAS

ANZ believes that the termination of GGAS and associated GGAS liabilities should not be triggered simply by the commencement of the NETS, but rather it should be aligned to the start of liabilities under the NETS. Without aligning the termination of GGAS liabilities with the commencement of NETS liabilities Australia may experience a period where greenhouse gas liabilities are non-existent, potentially unwinding the positive results already achieved under GGAS.

Given carbon markets are relatively new in Australia but are expected to grow strongly in a carbon constrained society it is important to ensure market participants remain confident that their participation in Government abatement programs is rewarded and not penalised. The New South Wales Government now has the opportunity to effectively transition the GGAS into the NETS and ensure that market participants are not disadvantaged for actively participating in its scheme.

ANZ would be pleased to provide further information on this issue and I can be contacted on 03 9095 0101.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'PT' or similar initials, followed by a period.

Paul Thomas
Head of Metals and Energy