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Mr Mark Duffy  
Director-General  
NSW Department of Water and Energy  
GPO Box 3889  
SYDNEY NSW 2001

Dear Mr Duffy *Mark*

I am writing to provide comments on the Consultation Paper for Transitional Arrangements for the NSW Greenhouse Gas Reduction Scheme (GGAS).

Sydney Water's key concerns are to ensure that:

1. the *carbon value* of unused NSW Greenhouse Abatement Certificates (NGACs), as well as the financial value, is maintained after GGAS ceases to be in force.
2. Sydney Water's financial investment in renewable generation, will not be affected by the transition from GGAS to the National Emissions Trading Scheme (NETS).

In July 2007, Sydney Water made a commitment to become carbon neutral for energy and electricity consumption by 2020, and set an interim target of a 60 per cent reduction in emissions by 2012. By 2020 it aims to have eliminated or offset more than 400,000 tonnes of greenhouse gases each year including the provision of 80GWh from renewable generating assets. By 2009, Sydney Water will be generating about 20 per cent of its electricity needs through hydro-generation and biogas cogeneration projects. Any remaining emissions will be offset with carbon credits.

Sydney Water generates a significant number of NGACs that it plans to use to offset greenhouse emissions. These NGACs form almost half of Sydney Water's commitment to the emissions reduction and plan for carbon neutrality by 2020.

Some more detailed comments on the Consultation Paper are attached. If you require any further information, please contact Phil Woods, Principal Analyst Eco-Efficiency, on 02 9350 4378 or email [Philip.woods@sydneywater.com.au](mailto:Philip.woods@sydneywater.com.au).

Yours sincerely

Kerry Schott  
Managing Director

*2/5/08*

## **Treatment of Unused Abatement Certificates**

Relating to Section 4.3

Sydney Water will have a significant store of unused NGACs when GGAS ceases to be in force. A critical element of Sydney Water's carbon neutral strategy is to use the accumulated NGACs to offset emissions after GGAS ceases to be in force. Sydney Water requests that the Transitional arrangements cater for this approach.

Sydney Water supports a conversion of NGACs to NETS permits. However it is important that the **carbon value of unused NGACs is maintained**. NGACs must be converted to NETS permits on a tonne-for-tonne basis (i.e. 1 NGAC equals 1 NETS permit equals 1 tonne CO<sub>2</sub>e). Sydney Water does not believe the option of converting NGACs to NETS permits based on estimated economic values is appropriate, as it fails to recognise the carbon value of an NGAC.

## **Transitional Time Frame**

Relating to Section 4.1

Based on the four factors noted in Section 4.1 of the consultation paper, the review panel has assumed that investors would only have expected to earn NGAC revenue to 2012 (and not 2020). Sydney Water does not agree with this assumption.

In early 2007 Sydney Water finalised the detailed design stage and developed the business case for a \$45 million program of renewable energy generation. This program includes five biogas-fired cogeneration plants eligible for NGAC creation. The financial viability of these five plants assumed revenues from NGAC certificates beyond 2012. This investment was approved in February 2007 and publicly announced on February 27, 2007. This was in the period between the 2006 announcement that GGAS would be extended to 2020, and June 2007 when the federal government committed to the introduction of a national emissions trading regime. Sydney Water considers that during that period, it was reasonable to assume that NGAC revenue (or equivalent of) would continue beyond 2012. While Sydney Water knew that some form of emission trading scheme would be introduced, what the scheme might look like was highly uncertain at that point in time, and it was generally accepted that investments or commitments made under the GGAS would not suffer a loss of value in the transition.

The transitional arrangements should recognise this scenario and include a mechanism to alleviate the impact of such loss in expected benefits. The value of NGACs from methane destruction through to 2020 contributes 20% of the net present value of the renewable energy program.

## **Waste Methane**

Relating to Section 4.2.2, 4.2.6

Parallel to the loss in dollar revenue, Sydney Water would also like to ensure that the amount of carbon credits/green certificates created is not reduced by a difference in the GGAS and NETS schemes. The current calculation methodology applied for NGAC creation from Sydney Water's biogas fired cogeneration plants takes into account the global warming potential of methane, which is 21 times greater than carbon dioxide.

Sydney Water supports the transition option to continue offset credit creation until 2012, though in Sydney Water's case (and as per the points above) it should be extended until 2020.