



# GGAS Newsletter

Issue 1, September 2006

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## Scheme newsletter

Welcome to the first edition of the GGAS Scheme Administrator's newsletter. Its purpose is to keep Scheme participants, stakeholders and interested observers up to date with developments in the Scheme.

The Scheme has grown considerably since it first started in 2003 and there is now a very broad community of interest in its progress. There are well over a hundred companies participating in the Scheme as project operators undertaking abatement projects, benchmark participants or members of the Scheme audit panel. IPART, as the Scheme Administrator, is keen to keep the staff of these participating companies, together with interested community and environmental groups, policy makers and interested members of the public up to date with developments.

## 2005 Annual report

IPART has released the third annual report for the NSW Greenhouse Gas Abatement Scheme. Highlights of the report include:

- All NSW benchmark participants – both mandatory and elective – reduced or offset emissions associated with their electricity use or sales to the benchmark or carried forward a small shortfall (as permitted by legislation). This represents 100% compliance by parties with an obligation under the NSW Scheme.
- During 2005 the total number of accredited offset projects creating certificates grew from 93 to 146. These projects created just over 10 million abatement certificates during 2005, a significant growth on the 7.7 million created in 2004.

The report can be downloaded from <http://www.greenhousegas.nsw.gov.au/documents/syn59.asp>

## DSA – DAF Forum

The Scheme Administrator held a Forum on 11 August 2006 with companies who are currently accredited, or applying to be accredited using the Default Abatement Factors (DAF) Method under the Demand Side Abatement (DSA) Rule.

The Forum was well attended by companies participating in this area of the Scheme. At this meeting the Scheme Administrator presented the results of an investigation it had undertaken to establish the current situation regarding installation rates and market saturation of products distributed via giveaway promotions. The bulk of these products are compact fluorescent light globes and AAA-rated showerheads.

The DAF Method allows accredited parties to claim abatement from the time of distribution of the products. It is in effect a forward claim. To account for the possibility that not all products will be installed immediately, an Installation Discount Factor (IDF) is applied. The IDF for giveaways was 0.8 and sales 0.9.

At the DAF Forum the Scheme Administrator advised the businesses that it intended to recommend that the IDF applied to giveaway programs be reduced to 0.4 based on evidence of market saturation, and an independent survey conducted of householders who had received giveaway products. This survey found that between 40-50% of these products had been installed.

The Scheme Administrator invited comments from businesses to its proposal at the Forum, and also by way of written submissions.

Following this consultation, the Minister for Energy amended the DSA Rule on 25 August 2006 to set a new IDF of 0.4 for sales and giveaways under the DAF Method.

### NSW Greenhouse Gas Abatement Scheme

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[www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)

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GGAS

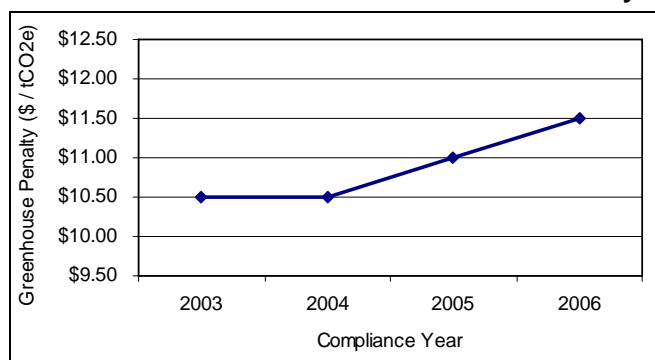
## Greenhouse penalty increases to \$11.50 per tCO<sub>2</sub>e

On 9 August 2006, the Independent Pricing and Regulatory Tribunal approved an increase to the greenhouse penalty from \$11.00 to \$11.50.

Clause 73C of the *Electricity Supply (General) Regulation 2001* (the Regulation), provides for the penalty to be adjusted annually post 1 July. The adjustment is calculated using the quarterly movements of the Consumer Price Index (All Groups Index) for Sydney in the preceding twelve months. In accordance with the Regulation, once adjusted by the index, the figure is rounded to the nearest 50 cents. In any year the penalty may go up, down or remain static, reflecting changes in the index.

At the inception of the Scheme, the penalty was set at \$10.50 (as per clause 97CA of the *Electricity Supply Act 1995*), and this amount has been subjected to annual review since 1 July 2004 in accordance with the Regulation. The chart below depicts the annual movements since inception of the Scheme.

**Annual movement in the Greenhouse Penalty**



The year of the penalty's adjustment is the same as the compliance year of application. For example, the adjustment in 2006 to \$11.50 means that any Benchmark Participant who fails to comply with their 2006 greenhouse gas benchmark (beyond the acceptable shortfall) will be liable to pay \$11.50 for each tonne of CO<sub>2</sub>-e excess emissions.

The penalty amount may act as a ceiling price for the NGAC spot market, if it is assumed that Benchmark Participants will stop buying NGACs to surrender if it becomes more cost-effective to pay the penalty. When tax implications are factored into the treatment of a penalty versus a cost of compliance for a commercial entity, the current penalty of \$11.50 equates to an NGAC ceiling price of approximately \$16.40 on the spot market. That is, above \$16.40, it may be more cost effective for a Benchmark Participant to pay the penalty than surrender NGACs. However, it should be noted, that payment of the penalty is the result of failing to comply, which has additional implications for the Benchmark Participant.

## Performance Improvement Testing Regimes (PITR)

Electricity Generators wishing to create NGACs using Method 2 (Performance Improvement Gain) of the Generation Rule for 2006 vintage NGACs onwards will need to develop and implement a Performance Improvement Testing Regime (PITR) for approval by the Scheme Administrator.

PITRs are intended to describe the procedures a Generator will use to establish a reference performance for a Generating System, and then to assess the ongoing performance of the Generating System against the reference performance. There are currently a number of ACPs engaged in the process of preparing PITRs.

The Performance Improvement Gain, derived from the difference between the ongoing and reference performance, is used in the calculation of the NGAC entitlement.

As part of the PITR review process, the Scheme Administrator may seek an independent opinion on the adequacy of the PITR from technical experts selected from the Audit & Technical Services Panel.

For more information on how to prepare a PITR, the PITR Guidance Document can be downloaded from <http://www.greenhousegas.nsw.gov.au/documents/syn92.asp>

## Four Corners report

On Monday 28th August the ABC program Four Corners addressed aspects of the Australian response to global warming. It reviewed some emerging technologies with the potential to reduce greenhouse gas emissions from the energy sector, particularly developments in clean coal technology. Various commentators interviewed noted the likely lead times before clean coal technologies are commercialised and commented on the need, reflected by parts of the business community, for a framework on emissions policy and carbon pricing that is "long, loud and legal".

We were pleased to see the role of the Scheme acknowledged as one of the world's first emissions trading schemes. It has led the way in introducing a "cost of carbon" in the energy and related sectors in New South Wales. While some comment was made on the complexity of the Scheme, the private sector innovation it has generated to reduce or offset emissions was clearly acknowledged.

More information is available on the ABC's Four Corners website at <http://www.abc.net.au/4corners/content/2006/s1722956.htm>

## Auditor training

The Scheme Administrator retains a panel of companies which undertake validation and verification audits and provide technical advisory services for the Scheme Administrator. Personnel of these firms which seek to act as "Lead Auditors" or "Key Personnel" must attend an auditor induction training session before undertaking any audits under the Scheme. Training provides an outline of the audit framework used by the Scheme and provides guidance on the appropriate engagement and conduct of audits under the Scheme.

Training sessions are generally held on a six-monthly basis and the next training session is scheduled for Thursday 12 October 2006 (from 9am to 1pm). The training session will be held at a central CBD location in Sydney.

If you have additional members of your organisation whom you wish to add to your Panel Agreement, as either Lead Auditors or Key Personnel, please advise Kylie Watts on (02) 9290 8452 or email [kylie\\_watts@greenhousegas.nsw.gov.au](mailto:kylie_watts@greenhousegas.nsw.gov.au) as soon as possible (including their names, titles, email addresses, phone and fax contact numbers and a copies of their CVs) so that they may attend this training session.

## Latest news

**25 August 2006** A new Demand Side Abatement (DSA) Rule has been made by the NSW Minister for Energy, the Honourable Joseph Tripodi MP and was gazetted on and is effective from 25 August 2006.

<http://www.greenhousegas.nsw.gov.au/documents/syn64.asp>

**9 August 2006** The amount of the greenhouse gas abatement penalty to be imposed on participants that do not meet their reduction target has increased to \$11.50 per tCO<sub>2</sub>-e for the 2006 compliance year.

**3 August 2006** The NSW Minister for Energy, The Honourable Joe Tripodi MP has tabled the Annual Report on Compliance and Operation of the NSW Greenhouse Gas Abatement Scheme during 2005.

<http://www.greenhousegas.nsw.gov.au/documents/syn59.asp>

**4 July 2006** The Tribunal has extended, until further notice, the date for lodging elections to become a Benchmark Participant to 31 August in the year preceding the year in which the election is to have effect.

<http://www.greenhousegas.nsw.gov.au/benchmark/electing.asp>

## Auditor tips

For both accreditation and ACP compliance audits, the draft audit report needs to be submitted to the Scheme Administrator (only) for review, rather than the applicant or ACP. If there are no concerns identified, the Scheme Administrator will then forward the draft audit report to the applicant or ACP. Once the draft report has been forwarded by the Scheme Administrator, it is the auditor's responsibility to organise a 'close-out' meeting for all parties prior to finalising the audit report. Again, the final report should be issued to the Scheme Administrator first who will then forward it to the applicant or ACP.

With regard to the audit of an applicant or ACP's calculation spreadsheets in respect of NGAC creation for a given calendar year(s), auditors should ensure that:

- The ACP is using the most recent terminology defined in the Rule. For example, the ACP's spreadsheet (under the Generation Rule) should now identify Sent Out Generation rather than Net Electricity Generation, and Net Sent Out Generation rather than Net Electricity Sent Out.
- The actual values for a Scheme-defined input to calculations have been appropriately derived from the Rule (not from some other similar industry definition). For example, under the Generation Rule, an ACP may have unintentionally confused a Scheme defined Net Sent Out Generation data value with a similar (but different) NEM data value. Although the difference in value may be minor, it can lead to subsequent errors in equation calculations.
- The appropriate NSW Pool Co-efficient for the year is being used. These are updated every year (for the next year) in November. Refer to the following Scheme website link for historical values to date [www.greenhousegas.nsw.gov.au/benchmark/key\\_factors.asp](http://www.greenhousegas.nsw.gov.au/benchmark/key_factors.asp)

## Registry statistics

Abatement certificates created since the Scheme commenced:

DSA	5,596,356
Generation	21,830,540
Carbon Sequestration	704,476
Large User	94,277

Number of projects currently accredited: 169

*Data as at 4 September 2006*