



18 August 2014

Attention: Carbon Co-ordination
Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra ACT 2601

Email: carbonco-ordination@accc.gov.au

Dear Sir/Madam

Carbon Tax Removal Substantiation Statement

CS Energy Limited (**CS Energy**) provides the following information in accordance with section 60FD of the *Competition and Consumer Act 2010* (Cth) (**CCA**) on behalf of CS Energy Limited and its wholly owned subsidiaries Kogan Creek Power Station Pty Limited and Callide Energy Pty Ltd on the basis of its retail and generation authorities and special approval under the *Electricity Act* (QLD) 1994. References to CS Energy in this Statement include these entities.

CS Energy retails electricity via direct contracts to the following classes of customer:

1. large commercial and industrial electricity users through over the counter contracts on the basis of either:
 - a. a carbon exclusive electricity price with a pass through carbon charge (**C&I CRP Customers**); or
 - b. pool price pass through (**C&I Pool Customers**); and
2. Gladstone Power Station Participants (**GPS Customers**).

In addition, CS Energy dispatches electricity into the National Electricity Market (**NEM**) via a central dispatch process facilitated by the Australian Energy Market Operator (**AEMO**). As a result, the ACCC has determined (as published on its website as at today's date) that the customers of CS Energy, as an electricity producer, include the parties registered with AEMO as "market customers" for the purposes of this statement (**Market Customers**). The inclusion of NEM registered Market Customers as a further class of customer in this statement should not be taken as CS Energy's acceptance of the ACCC's interpretation of the CCA.

The amount of the carbon tax liability passed through to CS Energy's customers prior to repeal along with the amount of the cost savings passing through to CS Energy's customers as a result of the repeal is set out below.

Brisbane Office
PO Box 2227
Fortitude Valley BC Qld 4006
Phone 07 3854 7777
Fax 07 3854 7300

Callide Power Station
PO Box 392
Biloela Qld 4715
Phone 07 4992 9329
Fax 07 4992 9328

Kogan Creek Power Station
PO Box 41
Brigalow Qld 4412
Phone 07 4665 2500
Fax 07 4665 2599

Wivenhoe Power Station
PO Box 38
Fernvale Qld 4306
Phone 07 5427 1100
Fax 07 5426 7800

C&I CRP Customers cost savings

Annual average dollar price cost savings of \$21.84/MWh

CS Energy's carbon pass through contracts require payment of a carbon reference price (CRP) being the fixed price of a Carbon Unit for the purposes of the *Clean Energy Act* 2011 (**Clean Energy Act**), moderated by an average carbon intensity. From 1 July 2014, the CRP under the Clean Energy Act was to be \$25.40/MWh.

The average volume weighted intensity (average intensity per MWh sent out) for whole of the NEM for the 2013/2014 financial year was 0.86.

Assuming that the NEM average emissions intensity remains the same for the 2014/2015 financial year, without repeal of the Carbon Tax, C&I CRP Customers could have expected to pay a carbon charge in the range of \$21.84/MWh.

As a result of the repeal of the Carbon Tax, the CRP has effectively been set to \$0 from 1 July 2014. Accordingly, no carbon charge will be payable by the C&I CRP Customers to CS Energy from 1 July 2014.

On that basis, CS Energy's best estimate of the likely cost savings to be passed on to C&I CRP Customers on an annual average dollar price basis is \$21.84/MWh for the 2014/2015 financial year.

C&I Pool Customers cost savings

Annual average dollar price cost savings of \$21.84/MWh

CS Energy's pool price pass through contracts effectively require payment to CS Energy of the relevant spot price during the relevant period of electricity consumption by the customer.

On that basis, the cost savings to be passed on to C&I Pool Customers is determined in the same way as Market Customers set out below.

GPS Customers cost savings

Annual average dollar price cost savings of [REDACTED]¹

CS Energy's contract with the GPS Customers requires, in certain circumstances, payment of a carbon inclusive value by the GPS Customers to CS Energy.

The annual average dollar price of the carbon which might be charged to GPS Customers, depends on a range of circumstances, (including the prevailing pool prices and outages at Gladstone Power Station (**GPS**)), so it is not possible for CS Energy to say, with any certainty, the amount of cost savings which will be passed on to GPS Customers as a result of the repeal of the Carbon Tax.

¹ Information in relation to GPS Customers is confidential and commercially sensitive and has been redacted for the copy of this statement published on CS Energy's website. This confidential information is known to the GPS customers and a full copy of the statement will be provided directly to the GPS Customers for their records.

[REDACTED]

CS Energy has entered into a deed with the GPS Customers specifically in respect of the repeal of the Carbon Tax. The effect of that deed is that no carbon inclusive value will be payable by the GPS Customers to CS Energy from 1 July 2014.

[REDACTED]

Market Customers cost savings

Annual average dollar price cost savings of \$21.84/MWh

CS Energy has no direct contractual or transactional relationship with the Market Customers who buy electricity from a central exchange or "pool" at the spot price for the relevant period.

CS Energy offers electricity into the NEM on a five minute basis with a view to ensure its generation units are dispatched at prices that at least recover the short-run marginal cost, but also having regard to the uniform price auction of the NEM, prevailing market conditions, offers of other market participants and the minimum generation requirements of the units. The price will clear depending on prevailing supply and demand conditions and not necessarily the price at which CS Energy offers generation into the NEM.

As the spot price is an all inclusive amount which does not necessarily reflect the cost of generation of any individual generator, it is not possible to determine the precise extent to which the spot price reflects carbon costs.

In all of those circumstances, it is not possible for CS Energy to say, with any certainty, the amount of cost savings which will be passed on to Market Customers as a result of the repeal of the Carbon Tax.

For the purposes of this substantiation statement, CS Energy's best estimate of the likely cost savings to be passed on to Market Customers on an annual average dollar price basis is \$21.84/MWh, for the 2014/2015 financial year, consistent with the estimated cost savings for CS Energy's C&I CRP Customers.

A copy of this statement will be available on CS Energy's website as required by section 60FD(4) of the CCA.

Yours sincerely

[REDACTED]

Scott Turner
Executive General Manager Energy Markets

Enquiries: David Warman, Group Manager Sales & Marketing
Telephone 07 3854 7563
Email dwarman@csenergy.com.au