

## Question 2

*Senator CAMERON: You can take on notice how much you have spent on carbon capture and storage and how long you see Bayswater and Liddell power stations continuing to operate under a carbon price. Can you tell us what you see that time frame being?*

## Answer

In 2006/07, Macquarie Generation participated with Delta Electricity and Eraring Energy on preliminary assessments to increase our understanding about geological sequestration of carbon dioxide.

This included investigation of the following areas:

- coal seam methane storage
- legal requirements and liabilities review
- deep aquifer storage
- liquefaction, pipeline and pumping cost review

The costs of the entire study were shared equally between the three generators, with Macquarie Generation's share coming to a total of \$103,722.

The operating life of Bayswater and Liddell power stations depends on a number of variables, one being the implementation of the carbon tax. Macquarie Generation is currently undertaking modelling to determine how the carbon tax might affect the operating life of both power stations, however that modelling is not yet complete. Once it is complete the organisation will have a better understanding of the expected timeframe.

### Question 3

*Senator CAMERON: Could you provide to the committee—and it could be done in camera—a copy of the business plan to deal with a carbon price?*

*Mr Skelton: I am not sure I am in a position to do that. I would have to take that on notice as well.*

*Senator CAMERON: Okay, take that on notice.*

### Answer

Macquarie Generation is not in a position to reveal its business plans, including that designed to deal with the carbon tax. Revealing our business plan to anyone other than our shareholders would be of great disadvantage to Macquarie Generation's business. While we are a State-owned corporation, we must still compete against private sector competitors in an extremely competitive electricity market. Telegraphing our business plans would put the business at great risk.

## Question 4

*Senator CAMERON: Do you concede that you are the biggest polluter in the country?*

*Senator WILLIAMS: You already told the committee that you will have to absorb some of the cost when the carbon tax is applied. How much of that \$125 million profit is going to be left?*

*Mr Skelton: This is still preliminary analysis but, in the first year, it will reduce to a fairly small number—\$20 million or \$30 million, rather than \$125 million—and after that it will be zero.*

*Senator WILLIAMS: When it reduces to \$20 million or \$30 million it would obviously be conditional on you raising the wholesale price of your electricity.*

*Mr Skelton: That is adding the cost of carbon to our costs and offering our electricity to the market on the basis. The question then is what the market price will be as a consequence of us doing that. All the indications that we have from the modelling are that the increase in revenue we receive will be less than the cost increase we receive. That is why we will see a reduction in our profits.*

*Senator WILLIAMS: On those figures, by what percentage are you going to increase the wholesale price of your electricity?*

*Mr Skelton: Sorry, I cannot answer that question.*

*Senator WILLIAMS: Could you take that on notice?*

*Mr Skelton: Yes.*

## Answer

The National Electricity Market (the NEM) is an extremely competitive market. While we are the largest producer of electricity in the country, we do not set the price in the NEM. Like all of our competitors we are “price takers” not “price makers”. Therefore we are not in a position to decide how much of the carbon tax we will pass through to the purchasers of electricity in the NEM (the electricity retailers and ultimately household and business customers). Rather the proportion of the tax that is passed through to the electricity retailers will be based on what the market will bear.

At this stage we estimate that 60 to 80% of the carbon tax may be passed through to retailers. The remainder will need to be borne by ourselves, and will result in reduced profits and reduced dividends for our shareholder – the taxpayers of NSW.