



Investor Group on  
Climate Change

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**Australia /New Zealand**

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Cleaner Future Power Stations ITG Secretariat  
Energy and Environment Division  
Department of Resources, Energy and Tourism

7<sup>th</sup> January 2010

Dear Director,

Thank you for your invitation to make a submission on the discussion paper – *A cleaner future for power stations*.

The Investor Group on Climate Change (IGCC) represents Australian institutional investors (superannuation funds and investment managers), with total funds under management of over \$600 billion, and other key participants in the investment community. Members of IGCC are concerned with the long-term stability of the economy and therefore the impacts of climate change. They invest in all sectors of the economy, emissions-intensive and low-emissions alike, and are part owners of most of Australia's large companies.

IGCC is in a position to comment on the effect on investment of introducing emissions standards for power stations generally. Individual investors may submit separately to the Government on particular standards that are relevant to their individual investment decisions.

### **Implications of emissions standards for institutional investment**

The duty of superannuation funds and their investment managers to act in the best interests of their members, is generally regarded as a duty to maximise the financial value of investments over the long term.

Therefore superannuation funds and their investment managers are likely to take a financial, risk based approach to investment decision making with regard to coal-fired power stations. The implication of emission standards is greater certainly on the capital cost and the carbon price that a coal-fired power station is likely to pay in a future emissions trading scheme. These cost inputs will be considered with a myriad of other factors in investment decision making.

Power stations with lower thresholds are likely to have higher capital costs than power stations with higher thresholds but they are also likely to pay a lower carbon price because of lower emissions. These considerations will be judged with factors like the short-run and long-run marginal cost of the power station, its efficiency, the dispatch merit order, future electricity projections and portfolio considerations.



In summary, investors will base their investment decisions in coal-fired power stations on a financial risk-based approach with some consideration to reputational risk. Best practice emissions standards will provide cost certainty to investors which will assist in investment decision making. However, this is only one in a myriad of factors. The materiality and relevance of policy certainty on a carbon price and regulatory certainty on the design of the national electricity market is likely to be far greater in investment decisions.

### **National Energy and Greenhouse Reporting**

IGCC believes that full disclosure of emissions at the facility level and on equity control basis are necessary for investors to make sound judgements in comparing the emissions intensity of different assets and emissions obligations of various companies. The proposal to publish facility-level greenhouse gas emissions and electricity production data for electricity generators is welcomed by investors.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Nathan Fabian".

Nathan Fabian  
Chief Executive Officer