



your trusted value adviser

# Carbon Tax Impact – Preliminary Assessment

ABC Asset

CONFIDENTIAL

# This is a preliminary assessment of the carbon tax impact on the value of the ABC asset and the readiness of the asset management to reliably answer key questions regarding its response to the carbon tax

## Approach Taken

- Senior management provided VAA with 2010 estimates of Scope 1 & Scope 2 CO<sub>2</sub>e emissions as reported to NGER
- VAA interviewed senior management in relation to:
  - Forecast emissions over the next 2-3 years compared to 2010
  - Readiness to answer 8 key questions
  - Preliminary assessment of essential capabilities to respond to the key questions
- VAA accessed the most recent asset valuation for data on current value and cost of capital
- VAA estimated the impact of the carbon tax on asset value and assessed the readiness of management to respond to key questions and manage carbon risk
- VAA reviewed the draft of this report with senior management and edited it accordingly
- Senior management has confirmed that this preliminary assessment report is a reasonable reflection of their position and current data.

## The Key Questions

1. Do you know the likely CO<sub>2</sub> tax cost to the business (and how reliable is that estimate)?
2. How will the value of the company be impacted by the carbon tax?
3. What tolerance do you have for a “do nothing” response?
4. What carbon price causes a rethink of this answer?
5. What strategic options are available if the expected carbon tax impact is greater than the tolerable level?
6. Has the business case been developed for each strategic option?
7. How has the possibility that the carbon price is short-lived been addressed?
8. Has the company built capability to effectively manage its carbon risk?

The carbon tax value impact is of the order of -\$127m or 8% of the asset value

Carbon Tax Cost		
Assumptions:		
Price	\$ per tonne CO <sub>2</sub> e	23
Emissions:		
Scope 1	'000 tonnes CO <sub>2</sub> e	400
Scope 2	'000 tonnes CO <sub>2</sub> e	250
Total	'000 tonnes CO <sub>2</sub> e	650
<b>Carbon Tax Cost</b>	<b>\$m per year</b>	<b>15</b>

Sources: NGER 2010, Independent valuation

Value Impact		
Assumptions:		
Cost of capital		11.8%
Multiplier		8.5
Carbon Tax cost	\$m per year	\$ 15
Asset Value	\$m	\$ 1,650
<b>Value impact</b>	<b>\$m</b>	<b>-\$ 127</b>
	<b>% of Asset Value</b>	<b>-8%</b>

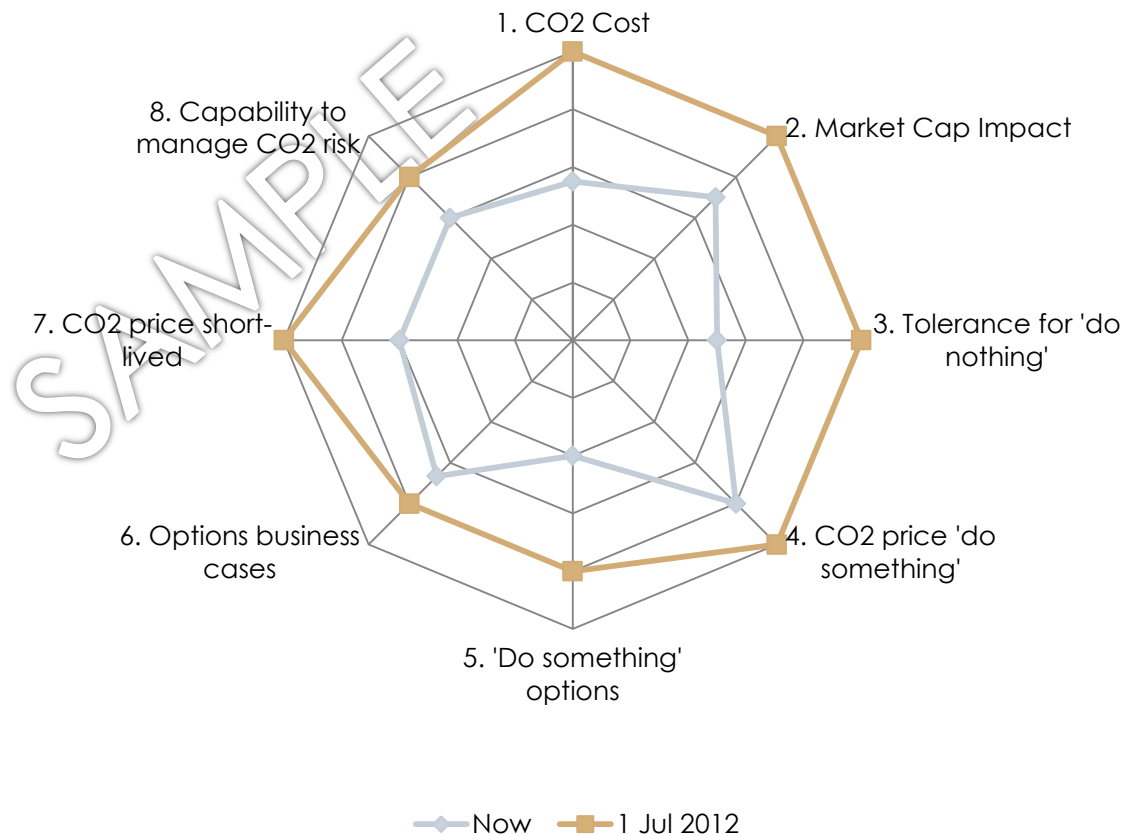
Sources: NGER 2010, Independent valuation

Management current confidence that it can reliably answer key questions is quite mixed – but it expects to be very confident by July 2012. A key issue is likely to be progress on options to reduce carbon tax impact.

### The Key Questions

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### Confidence Level (5 max)



# Management assesses the **current** (accessible) capabilities to manage carbon risk is reasonably adequate although it is yet to apply it fully

#	Question	Essential Capabilities	Rating 1-5 max	Average
1	Do you know the likely CO2 tax cost to the business (and how reliable is that estimate)?	<ul style="list-style-type: none"> <li>• Measuring Scope 1 emissions</li> <li>• Measuring Scope 2 emissions</li> <li>• Estimating emissions over next 2-3 years</li> <li>• Knowledge of Carbon Tax requirements</li> </ul>	3 2 4 2	2.75
2	How will the value of the company be impacted by the carbon tax?	<ul style="list-style-type: none"> <li>• Valuing the asset</li> <li>• Estimating the cost of capital over the next 2-3 years</li> </ul>	4 3	3.5
3	What tolerance do you have for a "do nothing" response?	<ul style="list-style-type: none"> <li>• Assessing pricing flexibility</li> <li>• Assessing competitors' pricing flexibility</li> <li>• Assessing scope for cost reduction</li> <li>• Developing plausible future scenarios</li> </ul>	4 2 2 2	2.5
4	What carbon price causes a rethink of this answer?	<ul style="list-style-type: none"> <li>• Assessing the capital markets expectations for investment returns</li> </ul>	4	4
5	What strategic options are available if the expected carbon tax impact is greater than the tolerable level?	<ul style="list-style-type: none"> <li>• Knowledge of available options – technology, finance etc</li> <li>• Creative, strategic thinking</li> <li>• Options analysis tools for decision support</li> </ul>	2 2 2	2
6	Has the business case been developed for each strategic option?	<ul style="list-style-type: none"> <li>• Option development</li> <li>• Option assessment</li> <li>• Business casing</li> </ul>	2 4 4	3.33
7	How has the possibility that the carbon price is short-lived been addressed?	<ul style="list-style-type: none"> <li>• Knowledge of global/national/industry forces</li> <li>• Risk assessment</li> </ul>	2 4	3
8	Has the company built capability to effectively manage its carbon risk	<ul style="list-style-type: none"> <li>• Capability requirements analysis</li> <li>• Capability assessment</li> <li>• Capability development</li> </ul>	3 3 3	3

# Management's confidence is qualified

#	Question	Key Notes
1	Do you know the likely CO2 tax cost to the business (and how reliable is that estimate)?	<ul style="list-style-type: none"> <li>• Scope 1 emissions estimate is reliable</li> <li>• Scope 2 emissions estimate has high uncertainty</li> </ul>
2	How will the value of the company be impacted by the carbon tax?	<ul style="list-style-type: none"> <li>• High uncertainty</li> </ul>
3	What tolerance do you have for a "do nothing" response?	<ul style="list-style-type: none"> <li>• High uncertainty given uncertainty regarding value impact &amp; competitor responses</li> </ul>
4	What carbon price causes a rethink of this answer?	<ul style="list-style-type: none"> <li>• High uncertainty given previous uncertainties</li> </ul>
5	What strategic options are available if the expected carbon tax impact is greater than the tolerable level?	<ul style="list-style-type: none"> <li>• We are aware of the main re-engineering options; all are significant investments; none have been examined in detail</li> <li>• Yet to identify and examine other (non-engineering) options</li> </ul>
6	Has the business case been developed for each strategic option?	<ul style="list-style-type: none"> <li>• At this stage the re-engineering options are being explored at high level</li> </ul>
7	How has the possibility that the carbon tax is short-lived been addressed?	<ul style="list-style-type: none"> <li>• High uncertainties regarding industry responses make it difficult to examine the risks</li> <li>• Some months away from proposing a policy</li> </ul>
8	Has the company built capability to effectively manage its carbon risk	<ul style="list-style-type: none"> <li>• Confident we can access specialist assistance in the medium term</li> </ul>

# A comprehensive solution set

*VAA has the answers... Carbon Tax Readiness  
- your solution to risk and uncertainty*



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