Questions on Notice – Senate Select Committee into Scrutiny of New Taxes – Inquiry into a Carbon Tax

> **CHAIR:** Overall, what sort of drop would we see in power generation from coal as a proportion of the overall energy mix on the east coast?
> **Mr Page:** Can I take that on notice and come back to you because I do not immediately have that in my mind, but certainly 15 per cent of capacity of coal fired plant was removed.

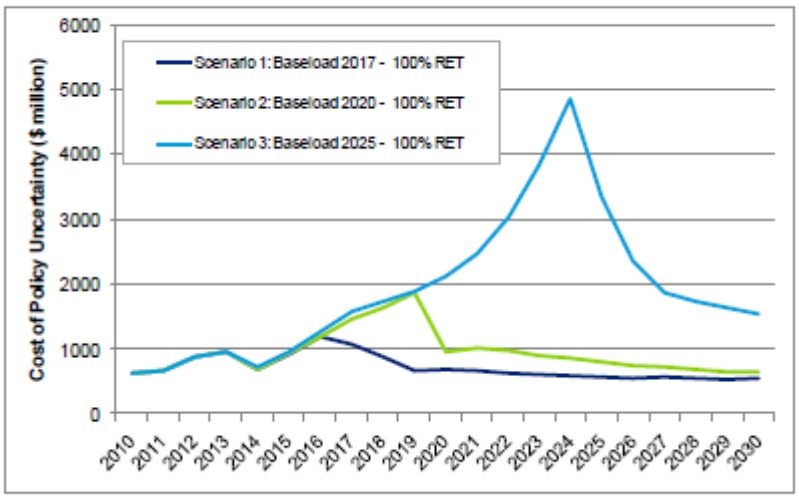
Based on ACIL Tasman's modelling for esaa in 2008, at prices similar to those modelled by Treasury at the time, the proportion of coal fired power in the NEM is projected to decrease from around 80 per cent at present, to around 57 per cent in 2020.

Senator CAMERON: Can you also explain the cost of delay in putting a price on carbon?

Mr Page: The only work that I am conscious of in that regard has been done recently for the government by the Investment Reference Group. That included a number of merchant bankers, the heads of the various market institutions in Australia, who are quite eminent people in their fields, and several CEOs of major generation and integrated utility companies. I believe Deloitte did some work for them on that. I cannot recall immediately what those numbers were and do not have them with me, but I think, through the committee secretary, that report is freely available or, if you wish, I can take it on notice and provide that to the committee. I am cautious about having a guess at the numbers. But I think they were of multiple billions of dollars over the first 10 years and the study was premised on, if you could not get confidence about carbon policy, then the risk minimisation strategy you would pursue would be to build smaller open cycle gas turbine generators that provided you with a higher return for a lower capital cost. But in the best of all worlds what you would really do is build what are called combined cycle gas turbines that operate at a much lower cost to the end consumer. They have a slightly higher capital cost but are much lower in emissions. I believe that the study took the approach of evaluating the outcomes of those two alternative approaches.

According to Deloitte's Report for the Investment Reference Group the cost of policy uncertainty is up to $1.2 billion per year if the carbon policy reaches 'certainty by 2017. At the high end of estimates, if policy uncertainty remains until 2025, the costs could reach almost $5 billion per year. The graph below shows the costs per year.

Figure 9: Cost of Policy Uncertainty: Undiscounted (Real 2010) $ million



Source: Deloitte Electricity Generation Investment Analysis Report, April 2011