

**Senate Standing Committee on Environment and Communications
Legislation Committee**

Answers to questions on notice
Environment and Energy portfolio

Question No: 231
Hearing: Budget Estimates
Outcome: Agency
Program: Climate Change Authority (CAA)
Topic: Towards the Next Generation Report - Target
Hansard Page:
Question Date: 07 June 2017
Question Type: Written

Senator Urquhart asked:

In the recently released report; TOWARDS THE NEXT GENERATION: Delivering Affordable, Secure and Lower Emissions Power, the CCA (along with the AEMC) provide principles for the design of a Low Emission Target (LET), should the Government decide to pursue such a policy. These include:

- “Be designed to progressively lower the emissions intensity of the NEM over time in line with Australia’s Paris obligations rather than create a strong, short term incentive for new generation that may be surplus to demand.”
- Provide a clear signal for investment by providing a transparent pathway for lowering the emissions intensity of electricity generation with clear review points at intervals no less than five years to reduce uncertainty; and
- Carefully consider its likely interaction with the wholesale electricity market and design operational rules with the aim of integrating the LET as seamlessly as possible with the NEM.

1. These principles seem to point to a design where the ‘target’ is one that refers to the emission intensity of the grid (or the electricity sold by individual retailers) rather than an absolute GW figure for ‘low emissions’ generation as with the current 2020 Renewable Emission Target. Is this correct?

1. a). If so, why is targeting emission intensity superior to total GW of generation?

2. These principles also seem to point to a LET that allocates LET certificates to existing generators (which operate below a given threshold). Is this correct?

2. a). What would be some of the advantages of such a design feature?

3. What features of a LET would best ensure compliance with the final design principle (seamless integration with the NEM)?

4. Would these include the creation of certificates by existing generators below a set emission intensity, the trading of certificates, and an emission intensity (rather than GW) target?

5. Can a LET be designed in such a way as to effectively function as an Emission Intensity Scheme (EIS) that works through electricity retailers rather than the wholesale electricity market?

6. Given the preference of the CCA (and AEMC as well as 29 other stakeholders cited in Appendix D to the Towards the Next Generation report) for an EIS, would the CCA

recommend that any LET for Australia be designed in such a way as to maximise how closely its features and functioning resemble an EIS?

7. Is a desire to ensure a LET as closely as possible resembles an EIS to some degree the thinking that guides the design principles for a LET presented in the TOWARDS THE NEXT GENERATION report?

8. The TOWARDS THE NEXT GENERATION report notes a LET could result in lower price impacts than an EIS, if designed carefully.

What factors (design or otherwise) would determine the relative price impact features of an EIS vs a LET?

9. Would it be 'easy' to design a LET with lower price impacts than an EIS, or would it be a difficult task subject to considerable uncertainty?

10. Is it the case that the CCA believes that in general, an EIS has lower price impacts than a LET?

Answers:

1. No.

a) There are a number of possible design options for a low emissions target (LET). The Authority did not offer a view on a preferred design in its report: *Towards the next generation: Delivering affordable, secure and lower emissions power*, and noted that the specifics of the design of a LET were beyond the scope of the review.

2. No.

a.) The Authority noted in its report that the specifics of the design of a LET were beyond the scope of the review. The Authority made no finding on the possible treatment of existing generators in a LET.

3. Please see answer to 1 a) above.

4. Please see answer to 1 a) above.

5. In its report: *Towards the Next Generation: delivering affordable, secure and lower emissions power*, the Climate Change Authority recommended an EIS for the electricity generation sector consistent with options analysed in previous reports.

The Authority has not considered whether a LET could be designed to resemble an EIS.

The Authority analysed both an EIS and a LET for its special review report on Australia's climate goals and policies (completed in August 2016). That review distinguished between the LET and the EIS as separate policies with distinct features.

6. See answer to question 5 above.

7. No. The Authority analysed both an EIS and a LET for its special review report on Australia's climate goals and policies. That review report distinguished between the LET and the EIS as separate policies with distinct features.

8. Impacts on price will depend on a range of factors such as the specific design of policies, technology costs and demand for electricity. Figure 6 in the Authority's report: *Towards the Next Generation: delivering affordable, secure and lower emissions power* report provides an estimate of the impacts of an EIS and LET on residential electricity bills over the period 2020 to 2050 based on modelling undertaken by Jacobs for the Authority's special review on Australia's climate goals and policies. The price impacts of the EIS and LET are projected to

be similar with the LET having slightly higher impacts under the 3 degree scenario and lower impacts under the 2 degree scenario.

9. The Climate Change Authority did not consider the specifics of designing a LET and noted that such issues were beyond the scope of the review.

10. No. Impacts on price will depend on a range of factors such as the specific design of policies, technology costs and demand for electricity. The Jacob's modelling for the Authority's 2016 special review on Australia's climate goals and policies indicates that an EIS and a LET have relatively low impacts on residential electricity bills. The price impacts of the EIS and LET are projected to be similar with the LET having slightly higher impacts under the 3 degree scenario and lower impacts under the 2 degree scenario.