

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Resources, Energy and Tourism Portfolio
Additional Budget Estimates 2009
26 February 2009

Question: AR-2
Topic: ETS and Victorian power stations and WA Domestic Gas Prices
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Senator David Bushby asked:

1. Would the Department agree with the Victorian electricity industry that, under an ETS, half the power stations in Victoria will close within 5 years as they are too old to be updated?
2. What impact will an ETS have on domestic gas prices in WA?

Answer:

1. The inclusion of the Electricity Sector Adjustment Scheme (ESAS) as part of the Carbon Pollution Reduction Scheme (CPRS) reflects the Government's commitment to maintaining investor confidence in the electricity sector, ensuring energy security and facilitating orderly structural adjustment.

As part of the CPRS development process, the Department of Climate Change sought the views of the Australian Energy Market Commission (AEMC), the National Electricity Market Management Company (NEMMCO) and the Australian Energy Regulator (AER) in assessing the risks and energy security implications that may result from the introduction of the CPRS.

The AEMC and NEMMCO concluded that the introduction of the CPRS is unlikely to trigger a major change in the merit order of generation dispatch in the National Electricity Market (NEM). The AER concluded that "early plant closure is unlikely".

The Government's ESAS recognises the importance of facilitating structural adjustment in an orderly manner. In talking about the role of the ESAS, the AEMC says that "the risk of acute and rapid financial distress is significantly reduced by an exogenous contribution to capital of \$3.9 billion, targeting on the most carbon-intensive plant." NEMMCO says that "the proposed ESAS payments to the most affected generation businesses represent an important mitigating factor".

2. The Department has not commissioned any modelling on this issue. The CPRS White Paper indicated that Australian household gas prices were estimated to increase by around 12% in 2010-2011, assuming a carbon price of \$25 for that year.