

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Resources, Energy and Tourism Portfolio
Supplementary Budget Estimates
18 October 2012

Question: SR7

Topic: Contract for Closure - linkage to the EU scheme

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Senator Milne asked:

Senator MILNE: My next question is in relation to the contracts for closure and the announcement of the linkage to the EU scheme. Can you tell me whether there was any negotiation with the coal-fired generators after the announcement of the EU scheme and before the contracts for closure was announced as having terminated as a policy position?

Mr Clarke: Negotiation in the sense of a policy or logical or commercial linkage between those two announcements? Is that the point of the question?

Senator MILNE: What I am trying to say is that clearly the linkage to the EU and the changing of the floor price arrangements was a material change. The negotiations for contracts for closure were taking place in a scenario where it was expected the floor price was there and there was no linking. When that change occurred were those companies who had been talking to the government about contracts for closure given an opportunity to recalibrate their position in light of that change before contracts for closure was declared to be null and void?

Mr Clarke: I want to make sure that I give you the most complete and accurate answer. I have just confirmed what I had understood to be the case. The answer is no, we did not seek revised proposals. The assessment on the contract for closure bids was made on the basis of policy as it currently existed regarding the floor price. The decision to not proceed with any contracts was on that basis. When it was known to the government but not to industry that a potential policy change was under consideration, we tested the materiality of that with our commercial advisers and judged that it would not make a difference to the outcome of the contract negotiation.

Senator MILNE: That is the point that I want to get to. Why do you say that it would not make a material difference when the carbon price in 2018 would have likely been the CER price, which is a very low price compared with the European price, which is the effect of the EU? Why is that not a material difference as far as a price trajectory for coal-fired generation?

Mr Clarke: I think what I was careful to say is "the material difference to the outcome of the negotiation". I accept that all policy changes can lead to material outcomes in valuations and forecasts. The question I took to be was whether it would have resulted in a different outcome in terms of yes or no on a contract, and our judgement was that it would not have resulted in a different outcome on the contract.

Senator MILNE: My question then is why not? What is your judgement? Why not?

Mr Clarke: We took professional commercial advice on that. I do not think I am in a position to elaborate further than that. But I would be happy to take it on notice whether or not I can give more of an exploration.

Senator MILNE: Please take it notice, because I want to know how you could possibly think it would not make a difference.

Mr Clarke: To the outcome of the negotiation?

Senator MILNE: Yes.

Answer:

Future carbon prices were just one of a range of factors the Government considered to assess the value of a generator beyond 2016. Expectations on forward wholesale electricity prices, around forecast demand for electricity; and regarding the costs associated with new lower emissions generation capacity were also important considerations.

The Government has stated that linking to the European Union scheme and the removal of the price floor has not changed its view about future carbon prices which are based on modelling by Treasury.

Therefore, the floor price announcement did not change the fact that there was a material gap between the evaluations of the Government and the eligible generators regarding the value of their assets beyond 2016.