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NETWORK

6 August 2009

John Hawkins  
Committee Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Mr Hawkins,

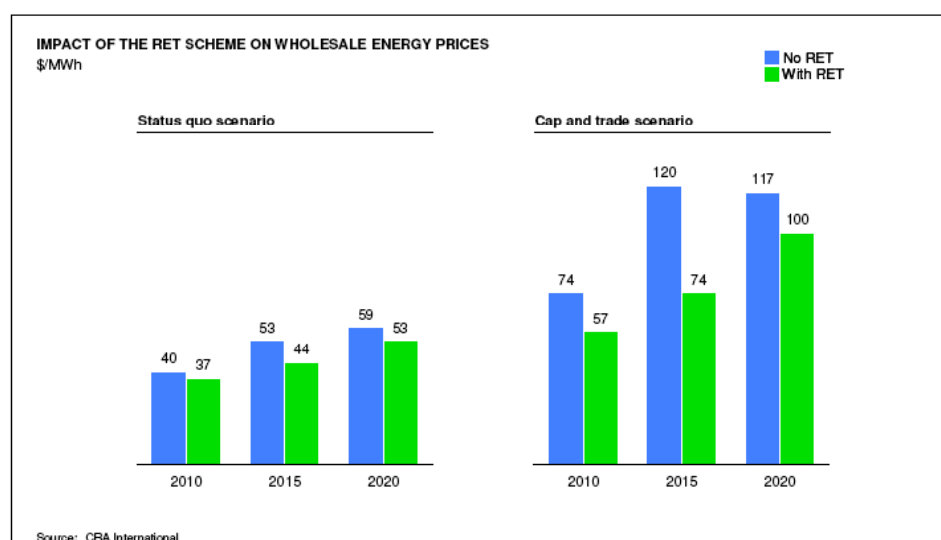
### Senate Economics Committee: Inquiry Into the RET Bills

At yesterday's evidence before the Committee, I undertook to examine modelling results that I had not been aware of and which were drawn to my attention by Senator Milne.

The consulting firm CRA undertook modelling for the Business Council of Australia last year on a range of matters to do with emissions trading and the RET. Their report, *Modelling Success: Designing an ETS that Works*, was released in October 2008 and is on CRA's website.

The relevant element of the CRA work is reported in Exhibit 4.30, which I have copied below.

Exhibit 4.30



The relevant scenario is the 'status quo' on the left of the Exhibit. The 'cap and trade' scenario is not relevant because the CRA modelling assumed that the emissions

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trading scheme to be adopted in Australia would be one where the price of permits was determined by Australia's 'cap', and hence the interaction of the RET and the emissions trading scheme would influence permit prices. This is not the case for the CPRS, where permit prices in Australia will be determined by world prices for permits.

Using the information from the 'status quo' scenario, *wholesale* electricity prices in Australia would fall by \$3/MWh in 2010 and \$6/MWh in 2020 because of the RET. Multiplying those lower prices by the amount of wholesale electricity estimated to be sold in 2010 and 2020 reduces electricity costs to consumers by \$570 million and \$1.56 billion, respectively. On the other hand, at a price of \$65/MWh for renewable energy certificates that electricity retailers will have to buy under the RET, the electricity costs to consumers will increase by \$810 million in 2010 and \$2.92 billion in 2020.

Using the CRA modelling, the net increase in electricity costs to consumers will be \$240 million in 2010 (\$810 million less \$570 million) and \$1.36 billion in 2020 (\$2.92 billion less \$1.56 billion). This compares to the AIGN estimates using MMA modelling that was done for the Treasury, and reported in our Submission to the Committee, of \$340 million in 2010 and \$1 billion in 2020.

I appreciate the opportunity to clarify this matter for the Committee.

Yours sincerely

**Michael Hitchens**  
Chief Executive Officer