

TREASURY EXECUTIVE MINUTE

Minute No.

1 October 2010

Deputy Prime Minister and Treasurer

ELECTRICITY PRICES

Timing: At your convenience – briefing requested by your office.

Recommendation/Issue:

- That you note this briefing on the drivers of electricity price increases.

Noted

Signature:

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ADDITIONAL INFORMATION

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Renewable Energy Target

While there is currently no carbon price, the Government's Renewable Energy Target does have an impact on electricity prices.

The Renewable Energy Target increases electricity prices through requiring electricity retailers to purchase renewable energy certificates, the costs of which are passed on to consumers.

Successive amendments to the Renewable Energy Target have changed its impact on electricity prices.

Recent changes to the Renewable Energy Target legislation to divide it into a Small-scale Renewable Energy Scheme and a Large-scale Renewable Energy Target were passed by Parliament in June 2010. This has led to new modelling of the impacts of the Renewable Energy Target on electricity prices.

This modelling found that electricity prices for the average household would rise from 2010 to 2015 by between 4.2 and 4.4 per cent or \$40.90 to \$41.10 per year (depending on the timing of the introduction of a CPRS), and rising further in subsequent years.

Attachment D provides information on the impacts of the RET on electricity prices.

Feed-in tariffs

The States and Territories offer a range of feed-in tariff schemes (particularly aimed at solar photovoltaic units). Eligibility is generally limited (for example, to domestic and small businesses) and the capacity limited. In a number of jurisdictions, the feed-in tariff is funded through a cross subsidy from electricity consumers through the distributor. Depending on the take-up of these schemes, it is possible that they could have a small impact on the electricity price paid by other users.

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ATTACHMENT A

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ATTACHMENT B

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ATTACHMENT C

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ATTACHMENT D**RENEWABLE ENERGY TARGET (RET)****Recent changes to the RET**

- The RET was expanded from a target of 9,500 GWh per year in 2010 to 45,000 GWh per year in 2020 in August 2009. The expanded target corresponded to roughly 20 per cent of Australia's electricity use in 2020.
- Legislation to divide the RET into two parts – the Small-scale Renewable Energy Scheme (SRES) and the Large-scale Renewable Energy Target (LRET) – was passed by Parliament on 24 June 2010. The amendments will take effect from January 2011.
 - The SRES applies to small-scale systems such as solar panels and is characterised by a fixed REC price of \$40. There is no fixed quantity required to be produced. Liable entities are required to purchase whatever small-scale RECs are issued in the market.
 - The LRET applies to large scale systems such as wind farms and has targets which have been reduced to 41,000 GWh to take into account expected generation under the SRES, so that the overall 45,000 GWh target is reached. The price of large-scale RECs is allowed to vary.

Impacts of the RET on electricity prices

- The following information on the impacts of the 2010 amendments to the RET on electricity prices is publicly available:
 - McLennan Magasanik Associates (MMA) modelling commissioned by the Department of Climate Change and Energy Efficiency (DCCEE) in May 2010 found that the total increase in electricity prices for the average household would be:
 - : 4.2 per cent or \$40.90 per year (for a 2013 CPRS start), otherwise 4.4 per cent or \$41.10 per year (for a 2014 CPRS start) from 2010 to 2015;
 - : 5.3 per cent or \$63.50 per year (2013 CPRS start), otherwise 5.4 per cent or \$63.50 per year (2014 CPRS start) in the period from 2016 to 2020; and
 - : 3.7 per cent or \$49.20 per year for the period from 2021 to 2030.
 - ROAM Consulting modelling commissioned by the Clean Energy Council found that the costs to households... are from 0.6 per cent to two per cent of retail electricity prices.... We calculate the net cost by 2020 of the entire scheme as being about six per cent of household power bills, so that will scale up as the scheme scales up. That is much smaller than the power bill increases of up to 40 per cent already being proposed as a result of network and transmission upgrades.
 - AGL Energy modelling “aligned closely with the results of both the MMA report and the modelling commissioned by the Clean Energy Council.”
 - This information was discussed at the May 2010 Senate inquiry into the RET legislation amendments.

- Publicly available estimates of the impacts of the RET prior to the June 2010 changes include:
 - Treasury modelling in the *Australia's Low Pollution Future* report, which projected retail electricity prices increases of 2-4 per cent from 2010 to 2020.
 - Frontier Economics modelling on the cost of the RET for the Independent Pricing and Regulatory Tribunal of NSW (IPART). This modelling found that the cost of complying with the expanded RET in \$/MWh was \$1.78 in 2010/11, \$2.16 in 2011/12 and \$2.55 in 2012/13.
 - Modelling by Port Jackson Partners which predicted an increase in the cost of meeting the expanded RET from \$1.75/MWh in 2009 to \$6/MWh in 2015.