

Australian Energy Market Commission

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Mr Ian C Woodward
Chairman Reliability Panel
Level 5 201 Elizabeth Street
Sydney 2000

26 September 2008

Our ref: EMO0001

Dear Mr Woodward

Review of the impacts of climate change policies on energy market frameworks – request for advice

In August 2008 the Australian Energy Market Commission (the Commission) was directed by the Ministerial Council on Energy (MCE) to review the impact of climate change policies on energy market frameworks (the Review). The Review is to conclude with a Final Report to the MCE in September 2009. I attach for information a copy of the Review Terms of Reference and Commission's Statement of Approach for the Review.

The Commission considers the Reliability Panel ("the Panel") to be an important source of technical advice for the Review on matters relating to reliability in the NEM. We therefore anticipate a series of requests during the course of this review, consistent with the advisory role of the Panel to the AEMC provide for in section 38 of National Electricity Law (NEL).

In the first instance, the Commission wishes to build its evidence base on how climate change policies might affect the likelihood by region of generation reserve levels being consistent – in the shorter term, and on an enduring basis – with the attainment of the NEM's standard for unserved energy. The Commission is aware of the detailed analysis undertaken by the Panel on this question in the context of its Comprehensive Reliability Review. However, the Commission is also aware that this analysis was based on scenarios which, understandably, did not reflect the current policy positions of the Australian Government in respect of the Carbon Pollution Reduction Scheme (CPRS) and enhanced national Renewable Energy Target (RET).

The Commission is therefore requesting the Panel to replicate the modelling analysis undertaken as part of the CRR using an updated set of assumptions to reflect changes since the CRR in policy positions on CPRS and RET, and to report its findings back to the Commission. Specifically, the Commission is requesting analysis under a range of scenarios for:

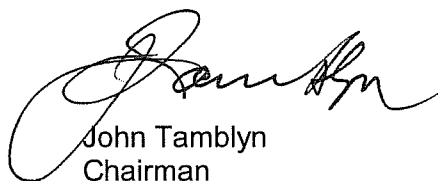
- The cost of emitting a tonne of CO₂-equivalent (i.e. the price of a CPRS permit);

- The amount of electricity produced by generators who would be eligible to contribute to the attainment of an enhanced national RET.

The Commission considers that an appropriate 'baseline' is to (a) assume a cost of \$20 per tonne of CO₂- equivalent, and (b) that the enhanced national RET for 2020 is met. The Panel should determine the range of alternative scenarios around this baseline. In addition, the Commission is keen to understand how sensitive the results are to different assumptions about (a) the price of gas, (b) the capital cost of new plant, and (c) the construction lead times for new plant and the associated network infrastructure. In this regard, the Panel should consider what additional scenarios might usefully inform the Commission's understanding of these different influences.

The Commission would welcome a report on these matters in writing by 31 October. If necessary, the Panel may commit to provide supplementary advice after this date.

Yours sincerely



John Tamblyn
Chairman

Encl.