



## Consequences of NETS for the power sector

CEEM NETS Workshop  
30 November 2007

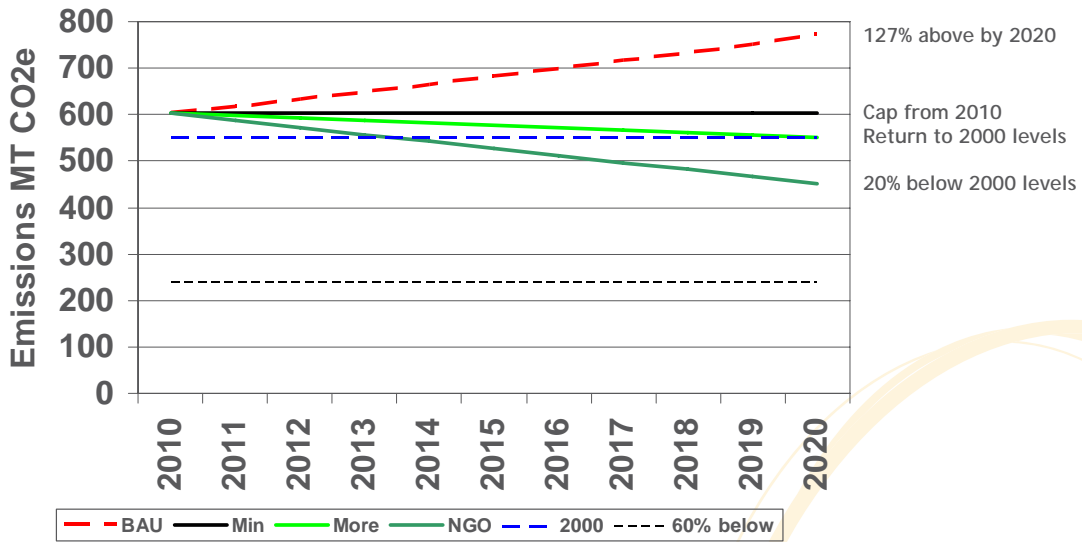


## Consequences for power sector ... a snapshot



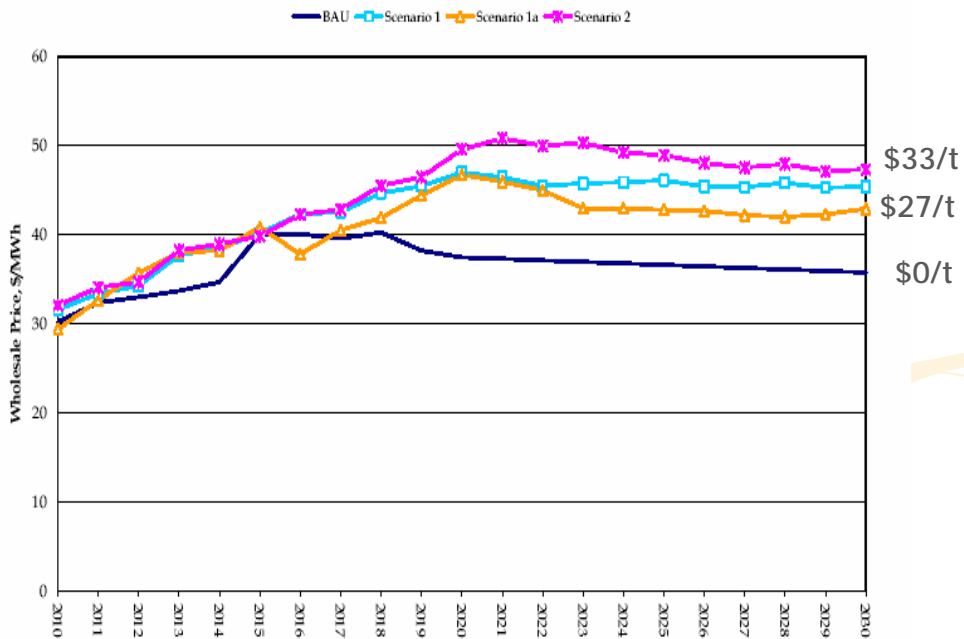
- **Electricity price internalises the carbon cost**
  - New entrant economics fundamentally changed; what was unviable becomes viable
  - Merit order shift within existing fleet
  - End users factor the cost of carbon into their demand for energy (eg new projects) and look for ways to use less (eg EE)
- **Game shifts towards market-driven rather than policy-driven activity**
- **Massive wealth transfer via permit allocation and/or auctioning**
- **Extent of structural shift in economy depends on a range of factors**

# Indicative possible targets



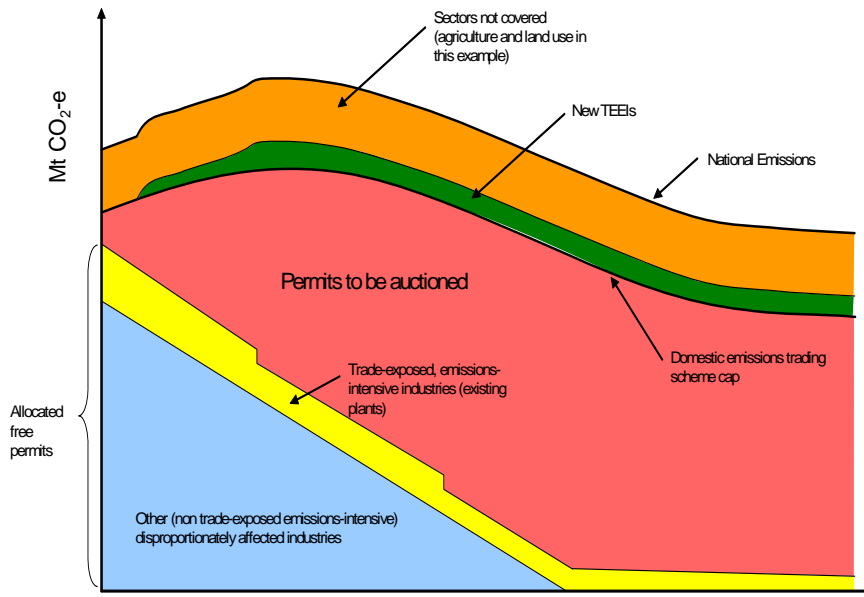
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# Potential impact on power prices



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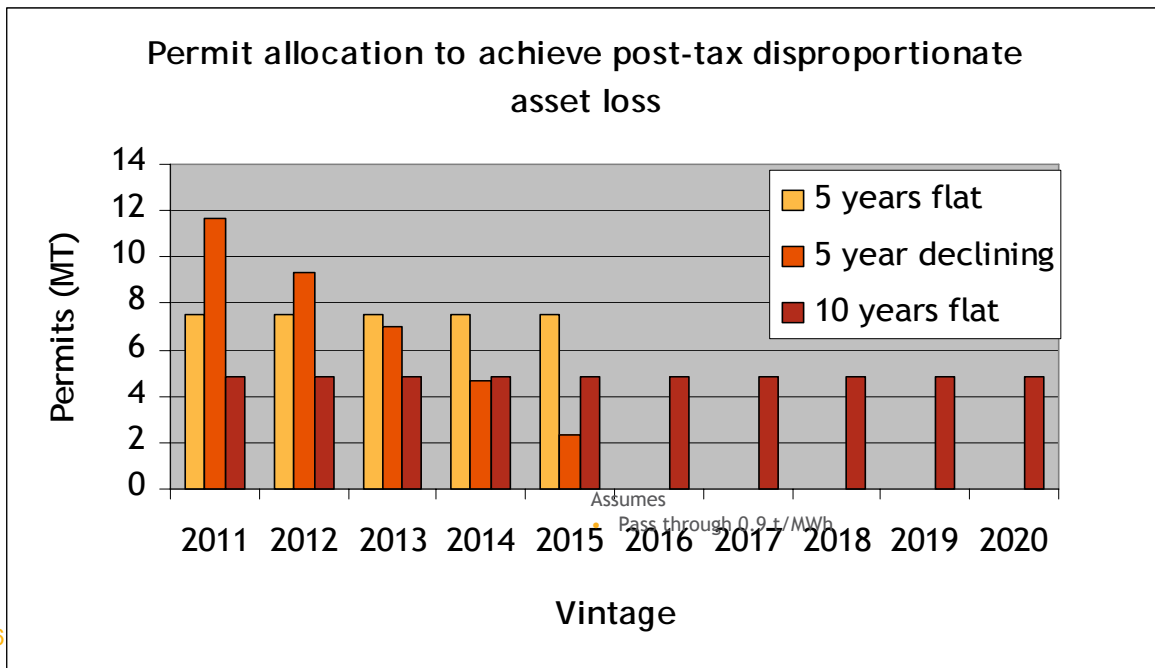
# Permit allocation vs auctioning under the Task Group report



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Source: Prime Ministerial Task Group on Emissions Trading

# Worked example of allocation



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## Lessons learnt from Europe



| Lesson Learnt   | Australian Response  |
|---|--|
| A 5 year price signal is not sufficient to drive new investment     | Long term aspirational goal, trajectory with gateways, and short term target     |
| Grandfathering does not result in lower energy costs                | Permit allocation for compensation of asset loss only                            |
| End users suffer the consequence of higher energy costs             | Permit allocation to TEEIs to address carbon leakage. Auction revenue to h/holds |
| Limited coverage will struggle to meet economy-wide reduction goals | Broad coverage (gases; sectors)  |
| Need to set targets based on sound information                      | Underpin scheme with a comprehensive measurement and reporting framework         |