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2011-2014 Electricity Standing Contract Price Determination Wholesale Electricity Cost Investigation - Draft Determination

The Climate Institute is concerned about the decision by the Essential Services Commission of SA (ESCOSA) to shift its method of determining wholesale electricity costs from a methodology based on long-run marginal cost (LRMC) to one based on short-run market costs (energy purchase cost (EPC) plus headroom). Please regard the comments below as The Climate Institute's submission to ESCOSA's consultation on its draft determination.

Established in late 2005, The Climate Institute is a non-partisan, independent research organisation that works with community, business and government to catalyse and drive the change and innovation needed for a low pollution economy and culture. Our vision is for a resilient Australia prospering in a zero carbon global economy, participating fully and fairly in international climate change solutions.

Australia's electricity sector is the largest single source of domestic greenhouse gas emissions. Emissions from the sector totalled 194 million tonnes of carbon dioxide (Mt CO_2) in the year to June 2012.[*] Sectoral emissions are slowly trending down, due to reduced demand for electricity and the growing contribution of renewable energy generation. The Renewable Energy Target (RET) is the biggest near-term driver of the domestic investment in clean energy needed for Australia to cost-effectively meet its long-term emission-reduction targets.

The RET is now the key catalyst for further investment in generation this decade. However, RET-driven investment is reliant on renewable generators achieving long-dated power purchase agreements (PPAs) for new sources of generation with retailers. As PPAs are based on the LRMC of generation, parties to PPAs (whether the PPA is internalized by a gentailer or not) need to be confident that those costs can be recouped.

[*] http://www.climatechange.gov.au/~/media/climate-change/emissions/2012-06/QuarterlyUpdate-NationalGreenhouseGasInventory201206-PDF.pdf

Fully competitive and deregulated prices and prices regulated according to a LRMC-as-floor methodology provide this confidence. However, regulatory methodologies based on short-run costs inevitably contain the risk that wholesale costs will be set below the level needed to recover long term investments by retailers and generators.

In shifting from an LRMC-based methodology to one based on short-run costs, the ESCOSA imposes significant additional risk on investors, such that new PPAs in South Australia may not be able to be achieved – or will be achieved at higher cost. This has a range of negative impacts: diminished renewable electricity generation and higher carbon pollution; stagnant or diminished competition as new entrants are discouraged from entering the market; and higher costs to consumers in the long term, both from diminished competition and from RET penalty costs and higher carbon costs.

For these reasons, The Climate Institute is primarily supportive of full retail pricing deregulation, coupled with robust customer protections and pricing transparency. Where retail prices are regulated, however, we support a methodology based on LRMC, to minimise unnecessary additional risks for new investment particularly as it affects renewable energy.

The Climate Institute urges the Essential Services Commission of South Australia to maintain its current methodology for calculating wholesale costs.

For any further information on this submission, please contact Olivia Kember, National Policy and Research Manager, on 02 8239 6299, or okember@climateinstitute.org.au.

Yours sincerely,

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