

Senate Standing Committee on Environment and Communications
Legislation Committee
Answers to questions on notice
Environment portfolio

Question No: 85

Hearing: Supplementary Budget Estimates

Outcome: Outcome 7

Programme: Emissions Reduction Fund Taskforce

Topic: Energy Savings Initiative

Hansard Page: N/A

Question Date: 27 November 2013

Question Type: Written

Senator Urquhart asked:

In the short term, could such initiatives push electricity prices higher? Why do some people refer to this as a 'death spiral'? What problems with additionality were found with energy savings initiative projects? Are credits likely to be issued for actions which would have gone ahead regardless?

Answer:

Modelling released by the previous Government in relation to a national energy savings initiative could be partially relevant to the Direct Action Plan. However, fundamentally, the two schemes are different in approach. The Government has provided an initial allocation for the Emissions Reduction Fund of \$300 million, \$500 million and \$750 million over the forward estimates. In contrast, energy savings initiatives apply obligations to energy retailers who pass the costs of these on to consumers.

Supplementary Budget Estimates Question number 084 provides information in relation to the modelled impacts on electricity prices of a national energy savings initiative. This modelling was undertaken by the previous Government.

Energy prices reflect a range of market and other factors. Network costs are typically fixed and allocated as a percentage of the cost of each unit of electricity sold. These fixed costs continue to be covered as electricity consumption changes. In regard to the requirement to collect these fixed network costs, some commentators have used the 'death spiral' to refer to a situation where consumers using less electricity cause network prices to increase, which leads to a further reduction in consumer demand as electricity prices rise.

The previous Government did not move to implement a national energy savings initiative, hence no projects were commenced.

The Government has set out in the Green Paper that the Emissions Reduction Fund will provide incentives for emissions reductions projects that are additional to business-as-usual.