

## Energy Deregulation - The Environmental Bonus.

One of the clear concerns raised during the early days of energy deregulation was a lack of environmental drivers. Many of the 'traditional' government utilities had a good record of providing real assistance to help their customers use energy more wisely. True, this assistance was often at the behest of their government owners. Nevertheless, the assistance was of real benefit and often included some very generous funding subsidies.

It was hard to see how a 'competitive industry' with a focus on market share and profit would deliver the same type of assistance. However, despite some misgivings, many of the deregulated energy retailers offered (and still do offer) some strong energy management services including access to third party funding. Not quite the same as a funding subsidy, but still very useful.

Perhaps the real barrier to energy saving projects over the last few years was low energy prices. When peak retail electricity can be purchased for under \$20/MWh, as it was not long after the advent of deregulation, there is very little financial incentive to embark on an energy saving program. Everybody focused on trying to secure the best possible rates. Many clients saw their energy costs drop by more than 30% as the Retailers went into 'feeding frenzy' mode. Moreover, these low energy prices made it hard to justify energy saving projects from a strictly economic perspective.

Now that energy prices have stabilized at more realistic levels, energy conservation is back on the agenda.

Increased environmental awareness and more importantly, Australia's efforts to reduce global warming and greenhouse gas emissions are also beginning to drive energy efficiency. This has led to a 'carrot and stick' approach. On one hand, electricity prices are being artificially increased; on the other hand, this increased revenue is being used to 'subsidize' eligible renewable electricity generation and energy conservation projects. Access to these 'subsidies' is not restricted to large players and should be considered when undertaking eligible in-house energy efficiency work.

Over the last few years, a variety of state and federal greenhouse imposts have been superimposed on the energy market. At the most simple level, these imposts increase electricity prices thus making energy savings projects more attractive. On the flip side, these imposts generate additional revenue that filters through to the producers of green electricity. Thus, helping to offset the relatively high cost of renewable generation.

But, and this is an important 'but'; there are opportunities for consumers who undertake eligible energy savings projects to also get their share of this funding and thus help offset the cost of their energy saving projects.

The concept is relatively simple and the 'devil is in the detail'. In part, some of the complexity and logistical issues are complicated by the fact that we do not have one truly national scheme. Fortunately, the two schemes that offer the greatest potential for end use customer participation are, for the purposes of this discussion, practically identical.

The schemes I am referring to are the NSW Greenhouse Gas Abatement Scheme and the ACT Greenhouse Gas Abatement Scheme. Both schemes require electricity retailers who operate in their market to reduce their per capita greenhouse emissions. Retailers who fail to meet their targets incur a penalty of \$10.5/tonne of CO<sub>2</sub> equivalent.

The targets are being progressively introduced and most retailers are currently passing on a compliance cost of about \$1.70/MWh to their customers. It is expected that this compliance cost will rise to about \$3.00/MWh by the end of the decade.

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Retailers are using this compliance cost to purchase greenhouse abatement certificates. Each certificate is the equivalent of one tonne of CO<sub>2</sub> equivalent. The good news for electricity consumers in NSW and the ACT is that they have the opportunity to produce these certificates.

Put simply, each 1.1 MWh of electricity saved through an eligible project in NSW or the ACT can be converted into one NSW Greenhouse Abatement Certificate (NGAC). At a penalty of \$10.50/tonne of CO<sub>2</sub> this translates to a benefit of \$10/MWh, or more. Thus each MWh of electricity saved should realize an additional savings of about \$10.00. Put another way, a project that saves 1 MWh per annum should be able to realize an additional carbon benefit of about \$70 or more over the projected life of these schemes (through to 2012).

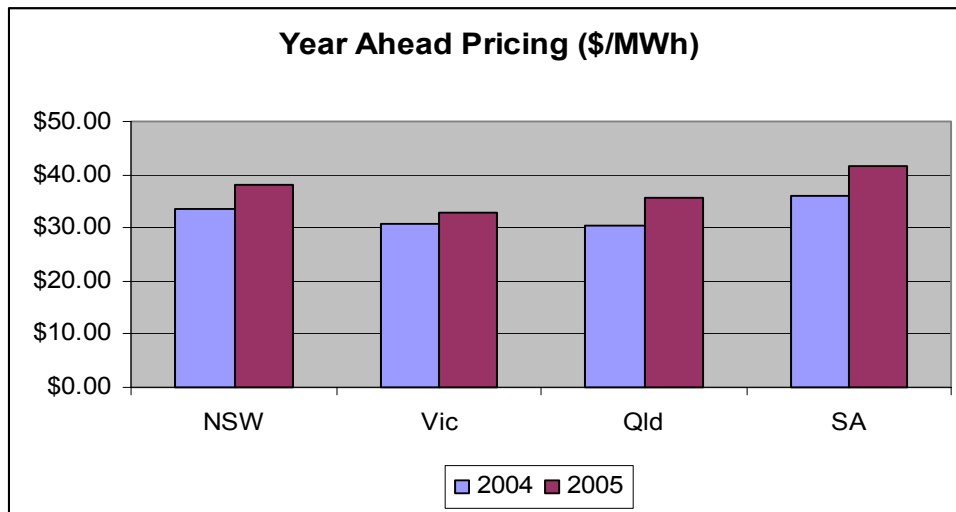
For the sake of completeness, two other things should be mentioned.

Firstly, the cost of the other environmental imposts: The Commonwealth Government MRET scheme is currently adding about \$0.80/MWh and it looks like Queensland's GEC scheme will add about \$1.65/MWh.

Secondly, the retail cost of electricity. All things considered, retail electricity prices are not as high as many consumers had feared. Especially since we are coming out of summer. Actual prices negotiated by any individual customer will always depend on their energy use pattern, commercial terms, negotiating strategy and the time they entered the market so it is probably meaningless to try and give customer specific predictions. A more relevant index is the 'year ahead' future prices.

Figure one below shows the 'year ahead' future prices for perfectly flat load as they were at February 2004 and February 2005. As can be seen, prices in all markets have moved up.

Figure 1



It will be interesting to see how prices move in the coming year and if we move any closer to a national greenhouse scheme.

Note: Any advice contained herein is general in nature and not specific to any client's requirements. Further personal advice should be sought from a qualified consultant before making any decisions relating to material contained herein.