NEWSLETTER

Key Energy & Resources

Key Energy Review – December 2004

Welcome to the December edition of the Key Energy Review. It's hard to believe that the year is drawing to a close so quickly. This edition of our newsletter will focus on those 'pesky' little environmental costs that are continuing to concern many of our clients. As usual **further information** about energy prices, anything else in this newsletter or any energy / greenhouse related item can be obtained by e-mailing us at info@TheKeyGroup.com.au.

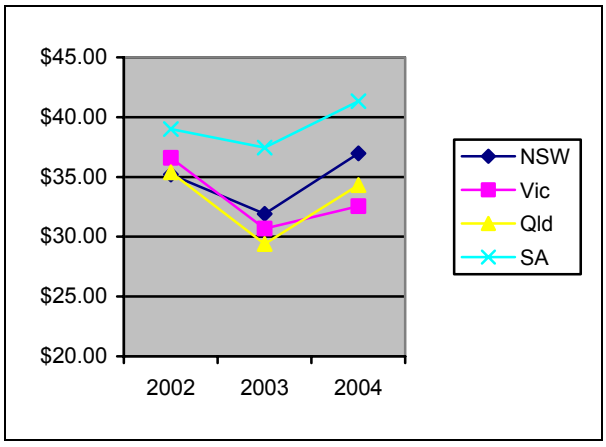
Most importantly, **Seasons Greetings**. Lets hope we all have a healthy and prosperous new year.

Environmental Compliance is becoming an ever-increasing burden. Firstly, most compliance costs continue to rise. A total compliance cost of $5/MWh is not out of the question. This will increase delivered electricity costs by about 6.5%. Secondly, the plethora of state and national based programs imposes high administrative overheads on national companies who are often obliged to participate in more than one program. Thirdly, there is a lack of uncertainty with regard to the introduction of new programs. So lets have a look at some of the common programs and associated costs. Further editions of the newsletter will look at the other programs not covered in this edition. In particular, the next edition will look at how *NSW consumers can trade NGAC's, created through energy efficiency work, back into the market at a profit!*

Mandatory Renewable Energy Target (MRET) is probably the most well known of the environmental compliance programs. It is a Commonwealth Government program that targets an additional 9,500 GWh of renewable energy by 2010. The target is being progressively introduced from 2001 (400 GWh) to 2010 (9,500 GWh). Program compliance is via **Renewable Energy Certificates (RECs)**. One REC is created for each MWh of approved renewable electricity that is generated. Retailers must surrender their pro-rata allocation of RECs each year or pay a penalty. The retailers are unilaterally passing on the cost of compliance to their customers. The current cost of compliance is about $0.75/MWh and this is expected to double to about $1.50/MWh by 2010. Hence, most of us are seeing a 'REC Cost', in our electricity accounts.

What change will I see in my retail electricity price? It's a common question asked by most of our clients who are about to renegotiate their electricity contract. All other things being equal, the ratio of the 'year ahead forward price' at the time of renegotiation to the 'year ahead forward price' at the time your current contract was negotiated should give you a good idea of the likely cost impact. We are calling this ratio the Key Electricity Index. Year ahead forward prices are shown below, so you can make an estimate of how your retail electricity prices are likely to move. If nothing else, it shows some interesting price trends.

Year Ahead Forward Price ($/MWh)



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.