Investors slam AEMC proposals: Wholesale electricity prices to increase; renewables growth to stall, under proposed electricity market rule changes

Sydney, 26, October, 2020: Electricity consumers will see an additional cost burden of $3.4 billion in increased electricity prices between 2021- 2050 and up to 3GW of new clean energy development is at risk if new market design proposals from the Australian Energy Market Commission (AEMC) proceed, according to expert modelling released today by the Clean Energy Investor Group (CEIG).

The modelling, by Baringa Partners, commissioned by CEIG as part of its response to the AEMC's latest consultation of future grid access proposals, confirms that that cost of capital for clean energy projects is projected to increase by 150 basis points due to revenue uncertainty created by the AEMC's proposals to move to Locational Marginal Pricing (LMP).

"Cost of capital increases for investors will flow through to wholesale price impacts for consumers. This is detrimental to both clean energy generators and energy consumers and highlights why the AEMC must revisit its proposed grid access proposals," said CEIG Chair Simon Corbell.

The modelling also projects that 3GW of new renewable energy projects will be deferred due to unacceptable levels of risk associated with revenues from new projects, which means more carbon emissions in the National Electricity Market (NEM) for a longer period.

"There will be a major slowdown in new renewable energy development across the National Electricity Market due to these market rule change proposals. This means thermal generation stays in the market for longer, and overall greenhouse gas emissions in the NEM will be 18% higher compared to the status quo - with a $500 million increase in the social cost of carbon," Mr Corbell said.

"This is a perverse outcome for investors and consumers, and quite frankly it is difficult to understand why the AEMC is persisting with this proposal. It highlights again why it should not continue with its proposed grid access changes."

CEIG is also concerned about the significant implications for achievement of State based renewable energy targets associated with these changes.

The expert modelling indicates that State renewable energy targets will not be achieved without additional price support from State Governments. This is due to the projected cancellation of 3GW of additional renewable energy projects as a result of to increased development costs and revenue uncertainty.

“ Victoria, Queensland and NSW have all adopted renewable energy targets or are supporting major growth in new renewable energy zones. Due to the increased cost of capital caused by these reforms, states will have to pay more for new renewable energy projects to enter the NEM. State renewable energy targets are clearly at risk if the AEMC persists with these proposals,” said Mr Corbell.

“The AEMC grid access proposals directly impact investability of the NEM. Wholesale electricity prices will rise, clean energy investment will decline, and carbon emissions will increase, it is clear the public interest is not served by these proposals. They should be withdrawn.”

Instead, CEIG is advocating for greater focus on new Renewable Energy Zone development, as proposed in the Energy Security Board post 2025 NEM Design consultation.

“Renewable Energy Zone development must continue to be prioritised as a significant market reform to support to new investment in renewable energy projects at a time when they will be key to Australia’s economic recovery,” said Mr Corbell.

ENDS

Note to Editors:

CEIG submission to the AEMC and Baringa Partners Modelling

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About the Clean Energy Investor Group

The Clean Energy Investor Group represents domestic and global institutional investors with a combined Australian portfolio value of over A$9 billion and a total of 49 assets under management. It is an investor body, representing the unique perspective of clean energy investors to regulators, policy makers and the broader energy sector.