

MEDIA RELEASE

15 July 2012

A practical solution to a hard climate policy problem

A unique scheme that auctions power contracts to low-emissions technology companies could help Australia to transform its electricity sector and meet its long-term climate change targets at the lowest cost, Grattan Institute's Energy Program Director, Tony Wood, said today.

Launching Grattan's new report, [*Building the bridge: a practical plan for a low-cost, low-emissions energy future*](#), Mr Wood said that while a carbon price was an essential part of the response to climate change, government needed to take a further step to drive down the cost of low-emissions technologies.

"Right now, investors are reluctant to back low-emissions technologies because they are expensive and high risk," Mr Wood said.

"There is also real uncertainty government will make decisions that keep the carbon price rising over time and give these technologies a chance in the market against traditional electricity sources."

The report proposes that government enters into long-term contracts with project developers to buy electricity at a price that makes low-emission projects viable.

It does so through a series of six-monthly auctions, held over 10 years, that award power contracts in specific technology categories. Developers bid to provide low-emissions electricity and the lowest bids succeed.

The scheme could produce about 5 per cent of Australia's power – not a large amount, but enough to get low-emissions electricity projects started at the lowest possible price.

As projects are implemented, the essential experience they gain will enable them to cross the bridge to commercial viability. Government should then withdraw support, beyond a well-managed carbon price.

Mr Wood said Grattan's proposal would complement the Government's Clean Energy Future Plan, which states: "There is a strong case for the Government to help by encouraging innovation in clean energy, particularly during the early stages of the transformation."

However, it could also complement the Emissions Reduction Fund that the Federal Opposition has promised to introduce as part of its Direct Action Plan to counter climate change if it wins government.

For further enquiries: Tony Wood, Program Director, Energy
M. +61 419 642 098 T. +61 (3) 9035 3867 E. tony.wood@grattan.edu.au

8 Malvina Place
Carlton
Victoria 3053
Australia

T. +61 3 8344 3637
W. www.grattaninstitute.edu.au
E. info@grattaninstitute.edu.au

“This proposal is not just another subsidy for renewable energy of the sort we have today, but addresses a real and recognized limit to carbon pricing,” Mr Wood said.

“Government has to give confidence to the long term carbon market. Our solution is designed precisely to build a bridge between the current carbon market and the market for low-emissions technologies that the country needs.”