

## **MODELLING OF A CLEAN ENERGY TARGET MECHANISM IN THE NATIONAL ELECTRICITY MARKET**

The COAG Energy Council (the Council) has considered the interactions between energy and climate change policies in the National Electricity Market (NEM) during its meetings between 2015 and 2017 and the implications for energy affordability, reliability and sustainability. The Council recognised the significant implications Australia's carbon reduction policies may have for the NEM and that the successful integration of the mechanisms used to achieve carbon emissions and energy policy objectives will be critical to meeting Australia's emissions reduction targets in the most efficient manner.

Australia and the world's energy sectors are undergoing transition, it is important to ensure a just transition for vulnerable communities, industries and consumers and to provide certainty for investment in new energy supply.

In 2016 the Council tasked Australia's Chief Scientist Dr Alan Finkel to undertake an Independent Review into the Future of the National Electricity Market. In considering the Independent Review at the July 2017 COAG meeting, States and Territories request the AEMC to develop the design options for a Clean Energy Target as recommended by the Independent Review.

Design issues and options that the AEMC should investigate include:

- emissions intensity thresholds calibrated to differing emission reduction trajectories
- the implications of different emissions intensity thresholds in establishing the CET including on the existing and future wholesale market, interaction with other schemes, emissions reductions, price outcomes and affordability
- Selection of baselines for the creation of certificate averages
- options for interaction with the existing Renewable Energy Target
- options for the adaptability of the mechanism over time – e.g. amending the emissions intensity thresholds
- compliance and enforcement

The analysis should also take into account the impact of changing design parameters on ensuring:

- wholesale markets provide appropriate incentives to ensure supply and demand balances across the NEM;
- wholesale markets are liquid and provide opportunities to reduce barriers to entry and facilitate competition; and
- appropriate frameworks and incentives are in place for network investment and investment in energy storage and other newer technologies.

The AEMC should engage with AEMO to the extent required in order to comprehensively assess the implications of Clean Energy Target design options.

States and Territories requests a report on this task by October 2017.