

State of the energy market



Energy companies around Australia have begun investing in new infrastructure projects in response to rising electricity demands and high prices, according to the Australian Energy Regulator's latest market snapshot.



Investment in transmission infrastructure has been strong in the last decade.

The AER, which is part of the ACCC, released its second annual *State of the energy market* report in late November after a year of volatile prices and emerging challenges.

While prices in the national electricity market eased a little during 2008, demand for natural gas continued to rise as the result of new gas-fired power generators coming on-line. In the longer term, major liquefied natural gas projects in Queensland are likely to lead to an increase in prices for both wholesale and retail customers along the east coast.

South Australia experienced record wholesale electricity prices early in the year as the result of a 15-day heatwave, triggering the unprecedented use of price controls.

Despite the investment response from generators, concerns remain about a lack of energy generation capacity in the coming years.

In 2007, the Australian Energy Commission Reliability Panel reported that forecast demand was growing faster than supply, and that a shortfall was possible by around 2011.

Investment in transmission infrastructure has been strong in the last decade and was forecast to exceed \$1.2 billion during 2007–08.

One of the greatest challenges facing the industry is the introduction of a Carbon Pollution Reduction Scheme.

The challenge will be particularly acute for coal-fired electricity generators, which account for around 83 per cent of Australia's total electricity supply. Coal is emissions intensive and the introduction of the scheme may result in some asset writedowns, sales, and the possible closure of brown coal generating plants.

However AER chairman, Steve Edwell, said the scheme may also bring new opportunities.

'The Carbon Pollution Reduction Scheme has created some uncertainty for the market, but it will also create investment opportunities. In particular, it adds further momentum to the natural gas sector and over time will spur greater interest in clean coal and renewable generation technologies.'

The state of the energy market report is available at www.aer.gov.au.