

Political uncertainty clouds future of energy

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Researchers from Murdoch University are investigating how the Federal Government's efforts to repeal the carbon tax are affecting investments in Australia's energy sector. Lead researcher and PhD candidate Matt Shahnazari said even if the carbon tax was repealed in the short-term, the industry still faces uncertainty.

"Labor and the Greens hold the balance of power in the Senate until July, and are refusing to back the Government's attempts to abolish the tax," he said.

"The effect of the electoral cycles and more stringent global mitigation efforts mean that a carbon price may be reinstated in the future."

Mr Shahnazari said this uncertainty over future policy settings influences

current investment decisions in long-lived assets, such as electricity generation facilities.

Researchers developed a decision framework to investigate one potential business response to carbon pricing.

The scenario considered the options of a private investor in an existing coal plant – spend money to convert the facility to a lower emission combined-cycle gas turbine plant (CCGT), abandon the plant, or do nothing.

"The findings show that although the current political uncertainty may delay investment in CCGT conversion, the expectation that [carbon pricing](#) will be reinstated reduces the amount of option premium to defer the decision," Mr Shahnazari said.

"Those who are serious about meeting carbon policy objectives need to create a more stable political environment, as the uncertainty around the [carbon tax](#) is hindering investment in cleaner technologies.

"If that stability can't be achieved, policy makers should consider setting a higher [carbon price](#) to improve the business case for converting to lower emission systems."

More information: Mahdi Shahnazari, Adam McHugh, Bryan Maybee, Jonathan Whale, "Evaluation of power investment decisions under uncertain carbon policy: A case study for converting coal fired steam turbine to combined cycle gas turbine plants in Australia," *Applied Energy*, Volume 118, 1 April 2014, Pages 271-279, ISSN 0306-2619, dx.doi.org/10.1016/j.apenergy.2013.12.050.

Provided by Murdoch University

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