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Submissions
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Climate Change Authority Review of the Renewable Energy Target – Discussion Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Climate Change Authority's (CCA) review of the Renewable Energy Target (RET) discussion paper.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

In our submission to the Issues Paper, we argued that the RET should be amended so that it represents 20 per cent of electricity generation at 2020 rather than the current fixed target which is considered likely to deliver a greater proportion than 20 per cent. This approach allows the target to reflect changes in demand; if demand recovers, it follows that the target will rise again potentially beyond 41,000 GWh.

This position represents the views of a majority of the esaa's members. There are a range of views within the Association with a minority of members supporting the retention of the existing target.

This diversity of views about the mechanisms of delivery does not diminish the industry's continued support for a RET that delivers 20 per cent renewable energy generation by 2020.

Rather than reiterating the arguments underlying this existing position, this submission addresses some of the key recommendations made by the Authority in its discussion paper.

The future of the RET

A shift to reviews every four years, as recommended by the CCA, means that the next review would take place in 2016. The Authority also recommends that targets beyond 2020 should be considered in 2016 review. At this time, the broader impacts

of increased renewable energy and general energy market conditions will need to be considered. The existing deployment of renewable energy has provided 'learning-by-doing' examples of how the energy system, across generation, transmission and distribution, can handle increased supply of renewable energy. It will be important to continue to monitor and understand the impact on renewable technology cost curves from continuing deployments as well as the implications for the electricity system as a whole when considering targets beyond 2020.

While there is broad community support for renewable energy, there is also a limit to what people are willing to pay in order to achieve this. There are costs associated with renewable energy beyond the price of RET certificates and generation cost. The effects of increased wind capacity on the transmission system and the increased deployment of solar PV in the distribution system also have to be considered.

There are broader energy market issues at play when considering the future of the Renewable Energy Target. Downward revisions to forecast energy demand, the interaction of peak and aggregate demand and the potential for new sources of demand such as electric vehicles (EVs) will all impact the role renewable energy will play in Australia's energy system. Similarly, any developments in technologies which could bring on new forms of renewable energy supply will also affect the future of the RET.

The Authority's cost-benefit analysis of different LRET trajectories

The esaa commends the CCA for modelling a range of scenarios other than the status quo as this provides a useful basis for comparison of different policy choices. We note with interest that under an "updated 20% target" the modelling outcomes are that at the end of the scheme in 2031: renewable capacity is higher, renewable generation over the period 2012-31 is higher and the resource cost is lower than under the status quo. On the face of it, then, this option would achieve the primary goals of the policy at lower cost.

The catch, as noted by the CCA, is that "the modelling does not, however, assume any change to renewable development costs that might flow from increased risk premiums associated with renewable energy policy uncertainty". The esaa acknowledges that policy uncertainty can increase risk premiums, and that this increase can lead to significantly increased costs in such a capital-intensive industry. Whether this will outweigh the benefits from a lower target is unclear, as reflected in the differences in views amongst our members. Despite the difficulty in quantifying the costs of policy change, it is disappointing that the Authority did not at least attempt to do so in considering whether to alter the target or not. Instead they have compared a set of quantitative benefits as per the modelling outcomes against a qualitative cost and made their judgment accordingly.

Small-scale Renewable Energy Scheme (SRES)

In principle, the esaa is supportive of many of the recommendations made by the Authority regarding the operation of the SRES. As a result of the Solar Credits Multiplier and generous feed-in tariffs established by state governments, the uptake of small-scale solar PV and the subsequent cost of the SRES have been higher than originally envisaged.

State governments have for the most part now moved towards allowing the retail electricity market to determine a fair and reasonable FIT. The Solar Credits multiplier has also been reduced and the Association notes that it will end on 30 June 2013. These represent positive steps towards sustainable policy settings for the small-scale renewable sector.

Reduction in SRES multiplier

Even with the end of premium feed-in tariffs, the cost of installing solar PV has still dropped, justifying the accelerated reduction in the solar credits multiplier. While the multiplier is scheduled to fall to one on 1 July 2013, the Authority has recommended that discounting of certificates could be used to further control the costs of the SRES. Reducing the SRES multiplier is one of the easiest ways for the Government to control the costs of the scheme and as such, the esaa supports the move to control costs in such a way. With the number of Small-scale Technology Certificates to be surrendered in 2013 estimated to be almost 34.5 million certificates or 18.76% of estimated liable electricity, this represents a large and costly impost on the electricity industry and ultimately consumers. Further reducing the multiplier will enable costs to be controlled in an orderly and reasonable manner.

Reduction in small-scale threshold

The Authority's recommendation to reduce the threshold for a small-scale solar PV system from the current 100 kW limit to 10 kW represents another positive move to help contain SRES costs. It may also increase supply of certificates into the LRET market. However, the Authority needs to be mindful of the effects that deeming can have on the LRET. The esaa advises that further consideration of this issue is needed. As has been well documented, the combination of the Solar Credits multiplier and deeming for 15 years' worth of certificates severely distorted the RET market until the target was split between small- and large-scale.

The discussion paper states that a reduction in the deeming period should be considered if the threshold is reduced. The esaa considers that it will be crucial to remove the deeming arrangements in the event that the threshold is reduced to 10 kW due to the risk that demand for such medium scale PV could distort the LRET market.

Administrative issues

The Association welcomes the Authority's recommendations to lessen some of the administrative burden on companies by removing the requirements to provide, *inter alia*, out-of-pocket expense data from the *Renewable Energy (Electricity) Act 2000*.

Other issues

Liability framework

The esaa considers that the recommendation to set the renewable power percentage and the small-scale technology percentage before a compliance year is a positive decision and one that will help the industry to better manage its liability.

Technology diversity

The esaa welcomes the recommendation from the Authority not to implement caps, banding or multipliers in order to increase the diversity of technologies in the RET. This will allow the target to be met at the lowest possible cost by avoiding distortions to the market.

Conclusion

The esaa supports the ongoing development of renewable energy and the policy of a renewable energy target designed to deliver at least 20 per cent renewable energy generation by 2020. However, the impact of falling or flat demand combined with the addition of the uncapped SRES means that the fixed 41,000 GWh target is likely to result in the proportion of electricity generated from renewable sources being greater than 20 per cent. While some esaa members support retaining the fixed target, the majority favour a RET which will deliver 20 per cent of Australia's electricity generation through renewable energy rather than a potentially higher and more costly proportion.

Although the CCA's discussion paper does not align with the Association's position, it has made a number of very positive recommendations to reform the SRES which would help to limit the costs of the scheme on the industry. However, in the case of reducing the threshold for participation in the SRES, it is important that deeming arrangements for such systems also be amended. Without appropriate deeming arrangements there is a risk in distorting the LRET market.

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9205 3116.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Matthew Warren', with a stylized flourish extending to the right.

Matthew Warren
Chief Executive Officer