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Review of the Renewable Energy Target

ACF submission to the Climate Change Authority

Introduction

ACF welcomes the opportunity to provide input on the operation of the 20% Renewable Energy Target (RET).

The world is currently experiencing a new industrial revolution in clean energy development. In 2011, a record \$260 billion was invested in clean energy worldwide. Record new investments in clean energy have been achieved in all but one year since 2004, and in 2011 total clean energy investments outstripped global fossil fuel investment for the first time.

Furthermore, in the last decade, while international coal and gas prices have risen by 500% and 300% respectively,¹ the price of renewable technologies has plummeted. For example, the price of solar energy has decreased 75% in the last four years alone.²

The RET Review (the Review) is well timed to ensure that Australia can capture our fair share of this booming global market, and make use of our world-class renewable energy resources.

Australia needs to rapidly transform to a clean energy economy in order to avoid the worst impacts of climate change and maintain a competitive advantage in the global energy market. To this end, ACF supports a transition to 100% clean energy in Australia as soon as possible.

In the longer term, Australia's maturing carbon price will help to drive this transition. However in the early years, our current suite of renewable energy industry development policies – including the Australian Renewable Energy Agency (ARENA), the Clean Energy Finance Corporation (CEFC), and the RET – will be the main drivers of clean energy investment. It is therefore essential that they provide a clear and stable framework to maximise investment confidence in new and existing technologies, and to drive a smoother and more rapid transition away from fossil fuels.

While the RET will drive significant investment in commercialised renewable energy technologies (predominantly wind) in the next decade, the transition to a clean energy economy is perversely threatened by the overlap between industry support policies. More specifically, the capacity for the newly legislated \$10 billion CEFC to unlock a clean energy investment boom in Australia – driving significantly increased installed capacity and a diversification of the technology mix – is hampered by the RET's legislated target.

The stability and integrity of the RET is also threatened by recent calls from some industry participants for a decreased target or a rollback of the market altogether.

The Climate Change Authority (CCA) must ensure that the RET is optimised to 'encourage the additional generation of electricity from renewable sources, and to reduce emissions of greenhouse gases in the electricity sector'.³ This can best be done by amending the RET to work constructively with the CEFC to underpin a clean energy investment boom in Australia.

¹ BP Statistical Review of World Energy, June 2012. www.bp.com/statisticalreview.

² <http://www.bloomberg.com/news/2012-05-16/solar-power-prices-more-competitive-than-thought-bnef.html>.

³ *Renewable Energy (Electricity) Act 2000*, s3.



Summary of Recommendations:

1. To provide investment certainty over the investment timelines of these projects the targets legislated in the *Renewable Energy (Electricity) Act 2000* must be maintained or increased as firm GWh targets and not changed to a floating percentage target.
2. To ensure separate policy mechanisms work together to provide the optimum long term outcome, without distortions to the existing RET market, CEFC projects must be made additional to the 20% target (in GWh terms) by increasing the RET to 50% by 2030, or including a replacement REC scheme.
3. Remove waste coal mine gas from the RET, as the original rationale for its inclusion has been superseded by the introduction of the carbon price.
4. Maintain the Small Scale Renewable Energy Scheme in its current form.

Specific Issues

1. The RET must provide investment confidence

It is critical that the RET provides a stable market to encourage private investment in clean energy generation. It will not 'encourage additional generation of electricity from renewable sources' if it does not provide the confidence investors require to develop projects. Either speculating about, or actually revising, the target every time the demand forecasts are updated will undermine investor confidence and the RET's ability to drive investment.

Similarly, moving to a floating 20% target will provide little investment confidence, as developers and liable entities can have no assurance on future generation requirements. This shortcoming of legislated percentage-based targets was first identified in the Tambling Review, and correctly acknowledged by the Climate Change Authority in their issues paper.

Furthermore, as the Review must be undertaken only with reference to the Objects of the Act, we believe it is outside the scope of the Review to decrease or scrap the GWh target. The Act only legislates GWh targets, and makes no reference to the 20% by 2020 policy commitment. It is not within the scope of the Review to address unlegislated policy commitments.

The Act in its current form provides the required clarity and stability to drive investment in commercialised clean energy generation in Australia.

Recommendation

To provide investment certainty over the investment timelines of these projects the targets legislated in the *Renewable Energy (Electricity) Act 2000* must be maintained or increased as firm GWh targets and not changed to a floating percentage target.

2. CEFC projects must be above and beyond the 20% RET

The recently legislated \$10 billion CEFC provides Australia with the missing piece in the innovation chain which can unlock a clean energy investment boom in Australia. It provides the critical support that the next wave of clean energy technologies require to make it to market, through the provision of flexible finance tools to address barriers to market on a case by case basis. Importantly, the CEFC will also drive diversity in Australia's clean energy generation mix, and therefore complement the RET (which favours wind and domestic solar investment).

However while the mechanisms now exist to unlock the level of investment we require for a truly clean energy economy, the boom in clean energy could still be fettered – perversely by the RET.

The RET is a vital incentive to support commercial-scale projects, but effectively limits all investment in large-scale clean energy investment in Australia to 45,000 GWh, despite up to an extra \$10 billion being tipped into the pot.

Making CEFC projects additional to the RET will not only unlock greater installed capacity and employment, but will also increase the efficiency of government spending.

Increased capacity for a clean energy future

Recent reports from the energy industry indicate that the 20% target can be delivered by the RET together with the carbon price,⁴ without the need for the CEFC.

Estimates of what new capacity the CEFC could deliver vary widely⁵ and are highly dependent on assumptions about the mix of financial mechanisms the CEFC may employ. However similar projects overseas have unleashed significant new renewable energy generation.

For example, US\$10 billion invested by the US Department of Energy Loan Guarantees Program directly into solar projects led directly to approximately 3GW of new solar energy generation and 2.5GW of annual PV production capacity.⁶ This is approximately half of the new generation capacity expected to be delivered in Australia by the 20% RET.

The CEFC could therefore make a significant contribution to Australia's renewable energy future **over and above what will be delivered by the RET**. And given that the CEFC will focus on supporting emerging technologies, these additional projects will complement the wind energy projects favoured by the RET, delivering a more diverse, secure and flexible energy generation mix.

Precedent has recently been set for additionality in Canberra, where the ACT Government recently announced construction of Australia's largest solar farm.⁷ This project will receive a state-based feed-in tariff and will therefore be additional to the 20% target.

In addition, making the CEFC additional will minimise the distortion to the existing and planned investments relying solely on the RET, and so avoid crowding those projects out.

Increased jobs and investment

The new projects built under the RET are expected to deliver approximately \$20 billion of private investment into the Australian economy by 2020,⁸ predominantly in the form of wind power projects.

In comparison, done properly the CEFC could unlock up to \$100 billion of investment in technologies which are unable to compete in the existing market, such as large-scale solar.⁹ This level of investment, required to effectively address climate change,¹⁰ will not be unlocked if investment is capped at 20% of our energy market.

⁴ Sydney Morning Herald, 'Increase in power bills, warns retailer'

<http://www.smh.com.au/environment/energy-smart/increase-in-power-bill-warns-retailer-20120502-1xzhl.html> 3 May 2012.

⁵ Published analysis of the new renewable energy generating capacity range from 1.5GW by ClimateWorks Australia through to 7GW by Bloomberg New Energy Finance. Sources: ClimateWorks Australia (2011), *Low Carbon Growth Plan for Australia, 2011 Update*; Australian Solar Energy Society (2012), *Australian Solar Energy Society Welcomes New Solar Flagships Arrangements* accessed at

<http://www.aapmedianet.com.au/MNJ/Release.aspx?R=727361&K=8685907>

⁶ National Renewable Energy Laboratory (2011), *DOE helps 'guarantee' future for solar*, accessed at

<https://financere.nrel.gov/finance/content/doe-helps-guarantee-future-solar-0>

⁷ Canberra Times, 'Symbolic solar farm initiative'

<http://www.canberratimes.com.au/opinion/editorial/symbolic-solar-farm-initiative-20120906-25h5a.html>

⁸ Australian Government (2011), *Securing a Clean Energy Future; The Australian Government's climate change plan*.

⁹ Australian Conservation Foundation (2011), *The Clean Energy Finance Corporation: Helping Australia Compete*, http://www.acfonline.org.au/sites/default/files/resources/ACF_CEFC_HelpingAustraliaCompete_0.pdf

¹⁰ Institutional Investors Group on Climate Change, Investor Network on Climate Risk, Investor Group on Climate Change (Australia/New Zealand) and UNEP Finance Initiative (2010), *2010 Investor Statement from New York Summit*, accessed at www.iigcc.org

In addition, while the RET alone could create approximately 35,000 jobs across Australia,¹¹ an unfettered CEFC is capable of increasing this to 100,000 jobs in clean, renewable energy Australia-wide over coming decades as the money is invested and reinvested in projects.¹²

It is in Australia's interests to act now to develop new clean energy technologies which could give Australia added export potential and underpin a strong economy in a clean energy future.

Increased pollution abatement potential

Both the CEFC and the RET target the deployment of renewable energy in Australia, with the CEFC focused on ensuring there is a diverse mix of clean energy and energy efficiency technologies in Australia. In the short-term, it is therefore missing the point to measure the success of either by their contribution to carbon pollution abatement.

In the longer-term, while the RET will help deliver a suite of projects (dominated by the commercialisation of wind energy) the RET **in addition to the CEFC**, will deliver a diversity of competitive clean energy technologies in Australia. This diversity of supply will act as insurance to our prosperity in a low-carbon future and give us the flexibility to meet our legislated 80% emissions reduction target by 2050, or greater.

Recommendation

CEFC projects must be additional to the 20% target. Options to make the CEFC additional to the 20% RET are:

1: Increase the RET

The RET is simply expanded to account for new generation capacity delivered through the CEFC, ensuring that the existing market is not distorted, and CEFC funding delivers new and additional investment.

Treasury modeling undertaken for the carbon price indicated that the carbon price together with the existing RET will deliver approximately 40% renewable energy into Australia's energy mix by 2030.¹³ This modeling did not include the significant investments possible under the CEFC, which did not exist at that time. An expansion of the RET should therefore acknowledge that the CEFC has the power to unleash investments well beyond this level. ACF believes the RET should be expanded to achieve 50% of Australia's energy coming from renewable energy in 2030, consistent with a real transition to a clean energy future.

2: Replace RECs for CEFC projects

The RET already includes a mechanism for projects which are eligible to create and sell RECs that are additional to the 20% target. This rule currently only applies to waste coal mine gas projects.

For every REC a waste coal mine gas project produces, the government replaces a REC back into the market. In this way the government supports waste coal mine gas projects without impacting on the 20% target for renewable energy projects.

While ACF does not support waste coal mine gas inclusion in the RET as it is not a renewable technology, the mechanism could be transferred to CEFC projects. Projects receiving support from the CEFC would be eligible to create RECs, which must be bought by energy retailers. These RECs would be marked as 'CEFC RECs' and would be replaced in the market to ensure they did not detract from the existing 20% target.

¹¹ The Climate Institute (2009), *Regional Employment and Income Opportunities Provided by Renewable Energy Generation*, accessed at

<http://www.efslearninghub.net.au/Portals/0/Resources/Publications/Files/663/TCI%20regional%20employment.pdf>

¹² ABC Lateline Business, *Renewables industry talks up jobs boom*, 11 July 2011.

¹³ Australian Treasury (2011), *Strong Growth, Low Pollution*. Needs a page number.

3. **Other Issues**

Inclusion of Waste Coal Mine Gas

Waste coal mine gas technologies were only included under the RET following the cessation of the NSW Greenhouse Gas Abatement Scheme in expectation of a federal carbon pricing scheme. While this measure may have been warranted when it was affected in 2009, this transitional assistance is no longer required now that Australia has a price on carbon pollution.

Including a fossil fuel technology in a renewable energy industry development mechanism threatens the integrity of the scheme and leaves the door open for other non-renewable technologies to seek assistance. ACF believes that waste coal mine gas should immediately be removed from the scheme.

Small-scale Renewable Energy Scheme

The introduction of the Small-scale Renewable Energy Scheme (SRES) as a separate market to the Large-scale RET, has been highly successful in driving investment in domestic solar technologies. Indeed, in 2011 Australia installed more residential rooftop solar systems than any other country.¹⁴

In addition, the separation of the SRES from the LRET has assisted in driving diversity in clean energy investment in Australia, as it has created targeted market conditions for demand and supply side clean energy technologies, which have very different investment metrics.

ACF supports the continuation of the SRES in its current form.

Conclusion

The RET has driven a significant increase in clean energy in Australia, on both the supply and demand sides. In its current form, it provides a clear and stable market that inspires investment confidence. It is important that the stability and success of the RET is not damaged by lowering the target or moving to a highly uncertain and inefficient moving target.

What is now important is to ensure that Australia's suite of world-class clean energy support policies, including the newly legislated ARENA and CEFC, interact efficiently to underpin a clean energy investment boom and a move to a productive clean energy economy.

ARENA, the RET and the CEFC have the ability to unlock this level of investment at all stages of the innovation pipeline. However, this will be undermined if the CEFC is not additional to the RET.

Australia has the innovation skills and world class resources to be a leader in the global clean energy race. It is critical that the CCA uses the 2012 RET Review to ensure that investment in clean energy can get above and beyond the 20% target and unlock a clean energy boom in Australia.

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The Australian Conservation Foundation is committed to achieve a healthy environment for all Australians. We work with the community, business and government to protect, restore and sustain our environment.

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¹⁴ REC Agents Association (2012). *Gold Medal for Australian Solar*, 20 August 2012.
<http://www.recagents.asn.au/gold-medal-for-australian-solar/>