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### Submission – Renewable Energy Target Review

The Climate Group is pleased to provide this submission in response to the Renewable Energy Target Review issues paper (published August 2012).

The Climate Group is an independent global non-profit organization. We operate in seven countries including the US, China, India, the EU and Australia. Our mission is to accelerate the growth of a global low carbon economy; a clean industrial revolution that will unleash a new wave of economic growth and job creation.

Since 2004, we've been working with governments, business leaders and the world's most influential individuals to drive the policies, technologies and investment we need to massively scale-up clean energy, clean technologies and energy efficiency – and make them commercially viable.

As the costs of renewable energy decrease, we are rapidly approaching a tipping point where clean energy dominates the stationary energy sector. The Climate Group is dedicated to ensuring that this transition occurs quickly enough to avoid dangerous climate change.

A central barrier, which is a recurring theme reflected throughout this submission, is the environment of policy uncertainty around the RET scheme. This uncertainty makes financing difficult, and can hinder the planning of renewable energy projects which may have development timelines stretching over several years. Accordingly, we would like to respond to the following questions posed by the issues paper:-

#### *Large-scale Renewable Energy Target*

- **In the context of other climate and renewable policies, is there a case for the target to continue to rise after 2020?**

Experience thus far has shown that a renewable energy target of ~20% is modest, given South Australia has already exceeded this level nine years before the national timeline. Indeed, South Australia is on track for 33% or more by 2020 by providing regulatory certainty, enabling planning frameworks and taxation incentives for wind investors.

Germany has a target of 35% by 2020, despite relatively poorer renewable energy resources. Early-movers stand to benefit the most from growth in the \$2.5T clean tech industry<sup>1</sup> and incentives such as the RET provide both

<sup>1</sup> <http://www.businessgreen.com/bg/news/2204897/germany-to-capitalise-as-global-clean-tech-market-tipped-to-top-eur4tr>

government and the private sector with the necessary incentives to scale up and prioritise renewable energy policies and investments, at least until the carbon price and other complementary measures provide an even playing field for renewable energy.

The target should continue to rise beyond 2020 to ensure a steady pipeline of projects. In setting the target beyond 2020, consideration should be given to:-

- Emissions reductions necessary to maintain a maximum of 2 degree temperature rise, allowing for Australia's per capita contribution, capacity for leadership, and exceptional renewable energy resources.
- The ability of the grid to accept further renewable energy penetration, given the emergence of smart-grid technology, including grid-level storage.
- The need to maintain a realistic but ambitious growth trajectory that allows for an orderly scale-up of deployment capacity and skills.

While complementary measures such as a carbon price will provide support to the deployment of renewable energy beyond 2020, it remains unclear whether the resulting price signal will be sufficient or stable, given exposure to international carbon markets and ongoing fossil fuel subsidies. The RET scheme adds certainty, and its influence (and cost) ought to intrinsically diminish to zero as the carbon price takes its intended effect.

Aside from driving the deployment of renewable generation, the RET sets a stable context to allow for the development of associated policy, such as state/local planning laws, grid planning/regulation, and land use.

- **Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?**
- **Are the existing 41,000 GWh LRET 2020 target and the interim annual targets appropriate? What are the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity?**

We agree with the reasoning of the Tambling Review on this matter, and believe the target should be defined on a GWh basis. Accurate long-term forecasting of electricity demand does not appear feasible at this time (in light of the unexpected but encouraging reduction in electricity demand on the NEM). A target defined on a demand basis will increase the risk to renewable energy investors and drive up costs.

More broadly, we feel that the push for a percentage of demand target (rather than fixed GWh) from some segments is disingenuous. Given demand at 2020 is unlikely to be at the level expected at the scheme's inception, this has the effect of watering down the target. This is unacceptable in the context of rapidly decreasing renewable energy costs<sup>2</sup>, increasing targets worldwide, and the substantial investment already committed. It is crucial to maintain or expand the 2020 target of 41,000 GWh.

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<sup>2</sup> BREE (2012) Australian Energy Technology Assessment.

We appreciate that there is some anxiety in the community about increasing electricity prices, despite widespread support for renewable energy. However, the contribution of the RET to price increases has been minor<sup>3</sup>, and in the longer-term there is scope for renewable energy to reduce electricity prices through the merit-order effect<sup>4</sup>, or by reducing peak-load, allowing the deferment of distribution network investment.

### ***Small-scale Renewable Energy Scheme***

- **What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies?**
- **Should there continue to be a separate scheme for small-scale technologies?**

There is certainly value in the continuation of a small-scale scheme given the unprecedented reductions in PV pricing experienced over the last 12 months. Rooftop PV is no longer a peripheral technology; it is able to make a substantial and cost effective contribution to electricity demand in Australia.

Small-scale technologies, particularly rooftop PV, can be developed over a much narrower time frame than large scale projects such as wind farms. This provides agility, but also volatility, exacerbated by shifting state-based support schemes (i.e. feed-in tariffs). It is necessary to insulate this volatility from large-scale projects to minimise investment risk and as such, small-scale technologies should be covered by a separate scheme.

### ***Review frequency***

- **What is the appropriate frequency for reviews of the RET?**

The desire to 'fine tune' the RET should be balanced against the risks to investment posed by continual review. A compromise may be to limit the scope and frequency of reviews. For example, reviews could occur every four years, but are only able to make upwards adjustments to the target on a GWh basis, as well as minor refinements to administrative arrangements that will not negatively impact upon deployment. This is particularly important for the large-scale scheme, where project timelines may overlap multiple reviews in the current environment.

The Climate Group appreciates the opportunity to make this submission in response to the issues paper. I would be happy to elaborate on the comments in this submission or to provide further information, if necessary. I can be contacted by email at [cbayliss@theclimategroup.org](mailto:cbayliss@theclimategroup.org) or by phone on +61 3 9668 5797.



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<sup>3</sup> Green Energy Markets (2012, June) Impact of market based measures on NEM power consumption.

<sup>4</sup> F Sensfuß, M Ragwitz, M Genoese (2008) The merit-order effect: A detailed analysis of the price effect of renewable electricity generation on spot market prices in Germany. *Energy Policy*. 38(8): p 3086.