

Overview

Firstly, In framing this submission, we have been cognisant of the objects of the Renewable Energy Act, namely:

- To encourage the additional generation of electricity from renewable sources; and
- To reduce the emissions of greenhouse gases in the electricity sector; and
- To ensure that renewable energy sources are ecologically sustainable

Secondly, we take the view that the review must be sensitive to current and forward policy settings and the general economic environment of 2012. These factors must include the introduction of the Emissions Trading Scheme (ETS) from 1 July 2012, the changing forecasts for energy supply and demand and the impact of rising electricity costs on consumers.

Thirdly, this review is being undertaken following a series of significant and highly contentious reviews of the RET since its original introduction. Of particular note is the impact on investor certainty created by such reviews and other policies implemented by the Federal Government and those of several states and territories.

In reaching conclusions and coming to the recommendations contained in this submission, we have drawn on two Grattan Institute reports released in 2012. They are: “No easy choices: which way to Australia’s energy future” (<http://grattan.edu.au/publications/reports/post/no-easy-choices-which-way-to-australia-s-energy-future/>) and “Building the bridge: a practical solution to a low-cost, low-emissions energy future” (<http://grattan.edu.au/publications/reports/post/building-the-bridge-a-practical-plan-for-a-low-cost-low-emissions-energy-future/>). The first of these includes a detailed assessment of energy technologies with the recognised potential to make a material contribution to a low-emissions future for Australia against the market failures that might limit that potential. The second report develops a detailed proposal for a policy that would address these market failures and barriers and therefore be genuinely complementary to the ETS. This report includes a detailed assessment of the strengths and weaknesses of the generic class of tradable green certificates policies of which the RET is an example.

Finally, we would note that a summary of this submission’s conclusions and recommendation on the LRET was published in an opinion piece in the Australian Financial Review on the 25th of September, and is attached as Appendix A.

Our overall conclusion is that the policy case for the RET, to the extent it was ever valid, is no longer so. The RET does not contribute to either the efficacy or the efficiency of the ETS. In particular, the current energy and climate change policy framework strongly suggests that the RET is now solely a form of industry assistance. This is not to say there is no sound policy basis for supporting low-emission technologies, and renewable energy in that context, but that the RET is not the appropriate vehicle to do so.

Our primary recommendation is that a balance of consumer costs and investor certainty would be best achieved by grandfathering existing commercial and contractual commitments made under the RET. A policy to support technologies with the potential to contribute to a low-cost, low-emissions future should be implemented that would be truly complementary to the ETS in addressing market failures and barriers.

The following sections provide specific, although not exhaustive, responses to the Issues and questions raised in the Issues Paper.

Large-scale renewable energy target

The following comments and answers to the questions raised in the review issues paper are framed in the context of current government energy and climate change policy. In particular, some answers would be markedly different in the absence of the ETS, or if a future government were to replace the ETS with another climate change policy instrument.

The appropriateness of the 41,000 GWh target incorporates two questions, namely the separate appropriateness of target of a 20% renewable by 2020 and the conversion of this target to 41,000 GWh. In terms of economic efficiency, the current LRET does deliver the target in the most economically efficient manner. Whatever the target however, the LRET almost certainly reduces the economic efficiency of overall climate change policy once such a policy is in place, for example via an ETS. In the same context, the LRET is not environmentally effective in that it does not contribute to any reduction in greenhouse gas emissions, but rather shifts abatement to a particular, domestic source. This means that the LRET provides a subsidy to a specific sector and Australian consumers are likely to be paying more than they should to meet an overall climate change policy objective of reducing greenhouse gas emissions at lowest cost.

The process of RET reviews and the approach of the 2020 target date have contributed to uncertainty and therefore to the question of whether the target can be delivered. If such uncertainty was removed and the Government clearly re-committed to the target then there is no fundamental reason why the target should not be achieved.

It is our understanding that the fixed gigawatt hour target was introduced and subsequently endorsed by the Tambling review to create greater investor certainty than would have been created by a fixed percentage. The weakness in this approach was always apparent and the rationale questionable. If demand was now forecast to be varying only marginally from that predicted during the Tambling Review, then there would probably have been no reason, and few calls for changing course, and so continuing with the fixed volume target would have made sense. However, today's forecast for electricity demand in 2020 is well down and electricity costs are of considerably greater concern to consumers and political leaders than they were earlier. It is this balance that the RET review will need to consider. None of the proposals to move away from the fixed volume target would seem to be inherently correct.

Any proposal to adjust the LRET target for Clean Energy Finance Corporation activities would seem to highlight the extent to which the current set of climate change and energy policies fail to reflect a cohesive and complementary whole. Rather than consider specific, one-off adjustments, it would be far preferable to undertake an overall assessment of the policy mix as proposed by CoAG in the context of complementary policies.

Small-scale renewable energy scheme

Grattan Institute has spent relatively time focused on the SRES. The following general comments are based on broad observations and indirectly supported by our recent research work.

It was bad policy to separate the SRES from the LRET. The primary reason is that separation was one of those changes implemented to address a perceived deficiency with an existing policy, and the constant changing is worse than the actual problem. In some ways, the decision is an Australian version of banding and carve-outs applied to RET equivalents elsewhere. However, the separation is now history, and gluing it back together with the LRET would probably not, per se, make a big difference.

The SRES is almost certainly deploying specific technologies. However, the policy justification and benefits/costs of those outcomes are far from clear.

The question of multipliers is one covered in some detail in the Grattan Report, "Building the bridge", referred in the Overview of this submission. We could separately expand on this issue if that would be helpful to the review.

The only change we would suggest is to put a cap on the SRES, consistent with the original 4000GWh and remove the fixed price. The processes around the Clearing House seem very messy and open to possible bad practices. The argument in favour of not capping the SRES always seemed very weak.

The core problems with both the LRET and the SRES lie in the poor central policy concept, related energy and climate change policies and then in the adjustments that arose from either politicians who misunderstood or disagreed with what the RET was doing or from industry seeking a better commercial outcome. Stopping this constant, unpredictable, fiddling should be the central priority for the review.

Appendix A: Opinion Piece: Australian Financial Review, 25 September 2012

To the chagrin of many vested interests, today's reality is that Australia's Renewable Energy Target (RET) has all the hallmarks of industry assistance policy, and few of a policy to address climate change. The Climate Change Authority's RET review should take place within this reality

In the absence of carbon pricing, the RET has delivered additional renewable generation and significant abatement at reasonable cost. With the introduction of the emissions trading scheme (ETS), everything changed. Firstly, the RET only increases the cost of reaching our emission reduction targets. This is because it forces a selective source of emissions reduction. If renewable energy in Australia is part of the lowest cost mix to reduce emissions, the market will deliver renewable energy.

Secondly, the RET does not address market failures or barriers that might prevent the ETS delivering a low-emissions future efficiently over time. This is because, like the ETS, it delivers today's lowest cost solution within the defined sector. Neither policy brings forward technologies that could be lowest cost in the longer term. When faced with uncertainties such as global climate change policy and future technology developments, best practice is to develop a suite of options that can respond to changing circumstances. Neither the RET nor the ETS does this.

Complementary policy should improve either the efficacy or the efficiency of the primary policy. The RET does neither.

Industrial policy always creates winners and losers. The RET review has created an opportunity and both sides have come out swinging. After all, who wouldn't want a government-guaranteed market share for their product? Who wouldn't object to a government-guaranteed market share for their competitors?

Evaluated as industrial policy, the question now is whether the assistance has delivered a viable set of technologies with better prospects for economic growth than would have been delivered in its absence. An associated consideration is how to balance costs to consumers against certainty for investors. Thirdly, there is a strong argument that the certainty created by setting a target in absolute energy terms should not be discarded lightly.

In the context of a climate change policy environment framed by the ETS, the ideal outcome would be to phase out the RET and grandfather or preserve contractual and related investment decisions made under the program. This is necessary to avoid repeating the unpredictable program tampering criticized in previous Grattan Institute reports. The ETS should then be supported by truly complementary policies.

The possibility of the ETS being repealed by a future Coalition Government is put forward as a reason to leave the RET alone because it might then contribute to emissions reduction in a meaningful way. This hypothetical is difficult for the Climate Change Authority, since it was appointed and tasked by the current Government. It is also not yet clear how the RET would complement the Opposition's Direct Action policy

Mid-stream policy review is always fraught with challenges. In the case of the RET review, using the wrong framework is to risk delivering the right answer to the wrong question.