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Dear Ms Harris

## Climate Change Authority's – Renewable Energy Target Review Issues Paper

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) collectively referred to as Ergon Energy appreciates the opportunity provided by the Climate Change Authority (CCA) to provide comments on the *Renewable Energy Target Review Issues Paper*. This submission is provided by EECL in its capacity as a Distribution Network Service Provider and EEQ in its capacity as a non-competing area retail entity in Queensland.

Ergon Energy looks forward to providing continued assistance to the CCA in its statutory review of the Renewable Energy Target Scheme. Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on (07) 4092 9813 or Trudy Fraser on (07) 3228 2144.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jenny Doyle', with a long, sweeping underline that extends to the right.

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**Ergon Energy Corporation Limited  
And  
Ergon Energy Queensland Pty Ltd**

**Submission on the *Renewable Energy  
Target Review Issues Paper*  
Climate Change Authority  
14 September 2012**





**Submission on the *Renewable Energy Target  
Review Issue Paper***  
**Climate Change Authority**  
**14 September 2012**

This submission, which is available for publication, is made by:

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## 1. INTRODUCTION

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Climate Change Authority on its Renewable Energy Target Review Issues Paper

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Ergon Energy supports the biennial review of the renewable energy legislation to ensure it continues work towards achieving the Renewable Energy Target.

In response to the Climate Change Authority's invitation to provide comments on the Issues Paper, Ergon Energy has focused on the impacts of liability under the Renewable Energy Target scheme for Ergon Energy as an electricity retailer and the efficiency of the administration of the RET schemes. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the Climate Change Authority require.



## 2. SPECIFIC COMMENTS





### 3. TABLE OF DETAILED COMMENTS

Question(s)	Ergon Energy Response
<b><i>Large-Scale Renewable Energy Target (LRET)</i></b>	
<p>1. 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?</p>	<p>Given the introduction of the Clean Energy Scheme electricity customers are bearing the costs of two schemes which have overlapping objectives. Ergon Energy's view is that the Renewable Energy Target (RET) scheme should be wound up in an orderly manner reducing the cost to electricity customers of achieving the carbon reduction target of 5% by 2020. However, given the Federal Government's clear commitment to the RET scheme (as set out in the letter from the Minister for Climate Change and Energy Efficiency to the Chair of the Climate Change Authority) this submission has been prepared on the basis that the current policy target of 20% renewable energy by 2020 remains unchanged.</p> <p>The current target 41,000 GWh LRET target was selected to achieve the Federal Government's policy objective of 20% renewable energy by 2020. Renewable energy investors would prefer certainty in this target. However, as electricity demand forecasts have fallen, it appears as though the current target will deliver more than 20% renewable energy. As the cost of this is recovered from a smaller energy base the cost per unit of electricity will be greater than that necessary to achieve the policy objective. Ergon Energy's view is that the target can be changed to achieve the policy objective with little impact on economic efficiency, environmental effectiveness and equity.</p>
<p>2. Is the target trajectory driving sufficient investment in renewable energy capacity to meet the 2020 target? How much capacity is needed to meet the target? How much is currently committed? Has the LRET driven investment in skills that will assist Australia in the future?</p>	<p>Ergon Energy considers that the current availability and price of renewable energy certificates indicates that the market believes that there will be sufficient investment in renewable energy to meet the 2020 target.</p> <p>The skills in renewable energy that will be retained in Australia are those of project development, commercial assessment, marketing and installation and construction. Australia seems unlikely to retain any engineering design or manufacturing base in renewable energy.</p> <p>With the delays to the Solar Flagship program, mostly the LRET has assisted wind farm development - with existing civil and electrical engineering and trades skills being applied to delivering this infrastructure. Negligible manufacturing investment appears to be occurring in Australia as major technical components including wind turbines are being imported.</p>



<p>3. In the context of other climate and renewable policies, is there a case for the target to continue to rise after 2020?</p>	<p>This would be a policy matter for the Government that would be highly dependent on future carbon dioxide reduction policies and Australian and global prices for emission reduction units.</p> <p>With falling electricity consumption in Australia, Ergon Energy suggests there is no valid case to make commitments now for a new higher target after 2020. Ergon Energy suggests that higher renewable energy targets that are supported by subsidies will result in higher electricity costs for consumers.</p>
<p>4. Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?</p>	<p>Ergon Energy considers that the 20% renewable energy policy target should be the constant with target GWh being adjusted accordingly.</p> <p>As electricity demand forecasts have fallen it appears as though the current target will deliver more than 20% renewable energy. As the cost of this is recovered from a smaller energy base the cost per unit of electricity will be greater than that necessary to achieve the policy objective. As the burden of higher electricity prices is felt by all electricity customers, over achieving the policy objective seems an unnecessary luxury as opposed to meeting the policy objective at minimum cost.</p>
<p>5. Should the target be revised to reflect changes in energy forecasts? If so, how can this best be achieved - as a change in the fixed gigawatt hour target, or the creation of a moving target that automatically adjusts to annual energy forecasts? How should changes in pre-existing renewable generation be taken into account? What are the implications in terms of economic efficiency, environmental effectiveness and equity?</p>	<p>Ergon Energy believes that the policy objective should be constant and that the annual GWh targets can be changed so that the policy objective is achieved.</p> <p>If a change is to be made in the interest of moderating the effect of the RET on electricity prices, it would be best for any such changes to be made at known dates, rather than a moving target.</p>
<p>6. What are the costs and benefits of increasing, or not increasing, the LRET target to Clean Energy Finance Corporation-funded activities? What are the implications in terms of economic efficiency, environmental effectiveness and equity?</p>	<p>If the LRET target is not increased then the Clean Energy Finance Corporation (CEFC) activities should result in a lower price for LGCs and a lower cost for electricity consumers. In Ergon Energy's view it is appropriate that electricity customers should benefit from the actions of the CEFC.</p>
<p>7. Is the calculation of individual liability using the Renewable Power Percentage (RPP) the most appropriate methodology?</p>	<p>Ergon Energy considers the present calculation method appropriate.</p>
<p>8. Is it appropriate to set the Renewable Power Percentage by 31 March of the compliance year</p>	<p>Ergon Energy considers the current 31 March timing is workable. However, not receiving advice of the RPP until 31 March means the business has to estimate the provision in accounts for January and February based on the prior year's percentage. In addition, a liable entity has uncertainty around its trading requirements until the end of the March quarter. Ideally the RPP would be available at the beginning of the Calendar year.</p>



	However, the impacts of the certification creation timelines which prevent this are understood. The current calculation of the RPP taking into account the surplus/deficit of the prior year whilst not ideal is workable.
9. Is the shortfall charge set at an appropriate level to ensure the 2020 target is met?	The shortfall charge is considerably higher than historic LGC market prices. For example, the YTD average Cal 2012 monthly closing market price is currently approximately \$37.90. Therefore, if the LGC market continues to follow the same pattern, the shortfall penalty should deter entities from failing to meet their individual liabilities.
10. Are there other issues relating to the liability or surrender framework the Authority should consider?	Ergon Energy's experience has been that it takes considerable time for the yearly surrenders to be finalised and any over surrendered LGCs to be returned. For example for the 2010 calendar year, the LGC which were over surrendered were not returned until August 2011.
11. What are the costs and benefits of the current exemption arrangements? Are they appropriate?	The current exemptions result in non-exempt electricity customers effectively subsidising the exempt customers. However, Ergon Energy acknowledges that it is important to protect emissions intensive trade exposed industries in Australia and would not support changes to the current exemptions.
12. The self-generator exemption pre-dates the emissions intensive, trade exposed partial exemptions - are both required? If so, why?	Ergon Energy would not support changes to the self-generator exemption arrangements as it is preferable to be consistent on exemption policies.
13. What, if any, changes to the current exemption arrangements should be made? What would be the impact of those changes on directly affected businesses and the broader community?	See above.
14. Is a list approach to 'eligible renewable sources' appropriate?	Yes.
15. Are there additional renewable sources which should be eligible under the REE Act?	All legitimate renewable energy sources should be eligible.
16. Should waste coal mine gas be included in the RET? Should new capacity of waste coal mine gas be included in the RET?	Yes – Coal mines should be encouraged to use waste coal mine gas for generation. Ergon Energy's preference would be for the RET to be unchanged for any new capacity of waste coal mine gas as this will reduce costs to electricity customers.
17. What would be the costs and benefits of any recommended changes to eligible renewable sources?	Additional sources of renewable energy should lower certificate prices and reduce costs to electricity customers. All legitimate renewable energy sources should be eligible.





<p>18. Are the LRET accreditation and registration procedures appropriate and working efficiently?</p>	<p>Yes - Ergon Energy recently submitted an Application for Accreditation of a Power Station and the process was appropriate and worked efficiently.</p>
<p><b>Small-scale Renewable Energy Scheme (SRES)</b></p>	
<p>19. What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies?</p>	<p>Ergon Energy recognizes that the Solar Credits (the Multiplier) and then the separate scheme for small-scale technologies were introduced as a response to replace the financial support previously provided by the Federal Government under the Solar Homes and Communities Plan in the form of upfront rebates to customers. However, with the rapid uptake of small-scale technologies particularly solar photovoltaics (PV) and the maturing of the small generation market, it is suggested that the cost of the separate scheme is no longer warranted.</p> <p>The separate scheme has meant that the cost of the assistance for small-scale technologies has been passed from Government to liable entities such as electricity retailers and in turn through to customers - a contributing factor to electricity price increases.</p> <p>The separate scheme has posed an additional administrative burden on liable entities. Ergon Energy has been required to establish and maintain separate models to administer, track and settle both large and small certificates in two separate markets</p> <p>Furthermore additional work has been entailed in the monitoring of the separate scheme to ensure Ergon Energy acquired Small-Scale Technology Certificates (STC's) at the lowest possible cost.</p> <p><b>The need to have separate schemes will have largely gone with the Solar Credits Multiplier reducing to one from 1 July 2013 and the reductions in state feed-in tariffs.</b></p>
<p>20. Should there continue to be a separate scheme for small-scale technologies?</p>	<p>No. With the continuing reduction of the multiplier and complete phase out of the multiplier from 1 July 2013, Ergon Energy suggests that there will no longer be any need to separate large and small scale technologies. The distortion that the small-scale scheme caused in the market and in the value of the certificates will then be removed. All renewable generation will then be treated equally, earning one certificate for each megawatt of renewable generation.</p>



<p>21. Is the uncapped nature of the SRES appropriate?</p>	<p>Ergon Energy suggests that uncapped nature of the SRES has been detrimental to an electricity retailer's forward planning in ensuring it acquires sufficient certificates to surrender.</p> <p>Ergon Energy suggests that it is unfair to favour small scale technology by having an uncapped scheme which requires liable entities to take up an unlimited number of certificates which the large scale generation certificate market is governed by a known quantity i.e. each liable entity knows in advance their pre-determined liability percentage.</p> <p>The uncapped nature of the SRES means that the cost borne by electricity customers of the SRES is also uncapped. While various other subsidies for small scale renewable energy generation are being lowered or removed, i.e. solar feed in rates in various States, and this is expected to slow or reduce the number of future installations expected. As carbon costs rise and solar PV costs continue to fall, the cost of continuing with an uncapped subsidy will be very expensive for electricity customers.</p>
<p>22. What do you see as being the costs and benefits of an uncapped scheme in terms of economic efficiency, environmental effectiveness and equity?</p>	<p>See previous comment.</p>
<p>23. Is the SRES driving investment in small scale renewable technologies? Is it driving investment in skills?</p>	<p>The skills in renewable energy that will be retained in Australia are those of project development, commercial assessment, marketing and installation and construction. Australia seems unlikely to retain any engineering design or manufacturing base in renewable energy.</p> <p>The SRES combined with feed-in tariffs, have largely driven investment in rooftop PV systems. Key technologies including inverters and PV panels are largely imported. The SRES scheme has not driven investment in these technologies or their manufacture in Australia. Accredited installers are mostly required to have electrical trades skills but it is difficult to ascertain if there has been an increase in these areas driven solely by the SRES or whether electrical trade skills continue to be in demand across industry particularly in Queensland.</p> <p>The SRES has resulted in an increase in energy assessment and marketing skills related to the PV systems sales boom.</p>
<p>24. What is the appropriate process for considering and admitting new technologies to the SRES?</p>	<p>No comment.</p>



<p>25. Should any additional small-scale technologies be eligible to generate small-scale technology certificates?</p>	<p>Ergon Energy suggests that the preferred position is that any additional small scale technologies should be evaluated on their merit against other renewable energy solutions and be technology and size neutral.</p>
<p>26. Is it appropriate to include displacement technologies in the SRES.</p>	<p>It is inconsistent that some displacement technologies are included but others are not. This may be seen as picking technical winners.</p>
<p>27. Should additional eligible technologies under the SRES be limited to generation technologies?</p>	<p>See comment above.</p>
<p>28. Is deeming an appropriate way of providing certificates to SRES participants?</p>	<p>Ergon Energy considers that deeming provides a simple valid method of determining the amount of likely generation and that providing a capital expenditure subsidy at installation stage is administratively more efficient than any attempt at life cycle payments. However, with the rapid take-up of feed in tariffs and the installation of appropriate metering to facilitate payment for export generation; consideration should be given to bringing the SRES certificates into line with large scale technologies in the future.</p>
<p>29. Are the deeming calculations for different small-scale technology systems reasonable?</p>	<p>Ergon Energy suggests that if deeming is to continue long term, then periodic testing against actual outcomes should be undertaken. There should be sufficient data from actual performance for this to be possible now. Anecdotal reports are now surfacing which indicate that some small scale generation systems unless suitably maintained throughout their life, will not provide generation to match the deemed value of certificates that have been issued at installation.</p>
<p>30. What are the lessons learned from the use of multipliers in the RET? Is there a role for multipliers in the future?</p>	<p>Ergon Energy notes that the introduction of the use of the multipliers underestimated the degree to which installers and manufacturers would seek to exploit these generous subsidies. Ergon Energy sees no role for multipliers in the future.</p>
<p>31. Is the Small-scale Technology Certificate Clearing House an effective and efficient mechanism to support the operation of the SRES?</p>	<p>Ergon Energy has not used the clearing house as it has been more cost effective to make the necessary acquisitions in the market.</p>
<p>32. Should changes be made to the Clearing House arrangements? If so, what would be the costs and benefits of any suggested alternative approaches?</p>	<p>No comment.</p>



33. Is \$40 an appropriate cap for small-scale certificates given the recent fall in cost of small small-scale technologies, particularly solar PV?	This needs to be carefully monitored given the uncapped nature of the scheme. The fact that the secondary market is trading well below this figure suggests there is already room to reduce it (although the impact of the reduction in solar feed in rates also needs to be considered).
34. Are the SRES administration arrangements appropriate and working efficiently?	Ergon Energy notes that frequent changes in the Clean Energy Regulator systems have caused administrative issues with bulk upload certificate creation.
<b><i>Diversity of Renewable Energy Access</i></b>	
35. Should the RET design be changed to promote greater diversity, or do you think that, to the extent that there are barriers to the uptake of other types of renewable energy, these are more cost-effectively addressed through other means? What would be the costs and benefits of driving more diversity through changes to the RET design?	Ergon Energy suggests the RET scheme to be technology neutral. However, If Governments choose to support specific technologies this should be done directly and transparently.
36. What would be the costs and benefits of driving more diversity through changes to the RET design?	If diversity is driven through increased subsidies then this will increase costs to electricity customers.
<b><i>Review Frequency</i></b>	
37. What is the appropriate frequency for reviews of the RET?	There is a relationship between the RET scheme and carbon dioxide reduction schemes and emission permits prices. Given the large uncertainty around carbon schemes and associated prices the RET scheme needs to be reviewed fairly frequently. Two years is suggested.
38. What should future reviews focus on?	Developments and pricing of emission permits. Manufacturing costs of renewable energy, particularly of Solar PV given the uncapped nature of the SRES.