



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

ECONOMICS LEGISLATION COMMITTEE

Reference: Renewable Energy (Electricity) Amendment Bill 2009

THURSDAY, 2 JULY 2009

PERTH

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**SENATE ECONOMICS
LEGISLATION COMMITTEE**

Thursday, 2 July 2009

Members: Senator Hurley (*Chair*), Senator Eggleston (*Deputy Chair*), Senators Cameron, Joyce, Pratt and Xenophon

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Mark Bishop, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Farrell, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Forshaw, Furner, Hanson-Young, Heffernan, Humphries, Hutchins, Johnston, Kroger, Ludlam, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Ronaldson, Ryan, Scullion, Siewert, Sterle, Troeth, Trood, Williams and Wortley

Senators in attendance: Senators Cameron, Eggleston and Pratt

Terms of reference for the inquiry:

To inquire into and report on: Renewable Energy (Electricity) Amendment Bill 2009

WITNESSES

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Committee met at 3.14 pm

CHAIR (Senator Eggleston)—I declare open this first hearing of the inquiry into the **Renewable Energy (Electricity) Amendment Bill 2009** and a related bill. On 18 June 2009 the Senate referred the provisions of these bills to the committee. The bills seek to implement the government's objective of increasing the renewable energy target from 9,500 gigawatt hours in 2010 to 45,000 gigawatt hours in 2020. This would imply that at least 20 per cent of Australia's electricity comes from renewable energy sources by the year 2020. The committee is due to report to the Senate by 12 August 2009.

These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that, in giving evidence to the committee, they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to the committee. Such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground on which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may of course also be made at any other time.

[3.15 pm]

WILLS, Professor Ray, Chief Executive Officer, Western Australian Sustainable Energy Association

CHAIR—Welcome, Dr Wills. I invite you to make an opening statement.

Prof. Wills—Thank you. I should correct the record. I am pleased to say that I am now Professor Ray Wills, based on a recent award from the University Of Western Australia.

Senator PRATT—Congratulations.

CHAIR—We congratulate you, yes.

Prof. Wills—Thank you. It happened last Friday, so it is still relatively fresh. I have presented evidence to the committee on other occasions, but I would still like to give some of the background of the association. The Sustainable Energy Association is a very broadly based industry body with now over 250 members. With that number of members, we are now Australia's largest state based body in the arena. Our activities cover everything across the sustainable energy portfolio, which includes everything from architecture and energy efficiency, through auditing and professional services such as legal services and accounting, all the way through to renewable energy generation and so forth, and we include customers as well as suppliers as members of the association. That is a very brief introduction. I have also left some copies of a recent publication that the association put together and included as a circulation in the *West Australian* newspaper last week. That had a circulation of 220,000 copies, and it broadly explains what the association does and what our members do as a part of their business.

In addressing the inquiry, I will start by saying that our view of the purpose of a renewable energy target is to provide long-term stable incentives for investment in new renewable energy projects in Australia. It is, in our view, to develop the industry, to provide for industry development. It is indeed an industry development package. Some of the challenges in establishing renewable energy in Australia include: how do we change the way that we source our energy and how do we make use of the fact that Australia has the best resources in renewable energy of any continent, of any nation, in the world? We have the world's best resources in wind, we have the world's best resources in solar, we have the world's best resources of waves crashing onto our coastline and we have the fantastic opportunity of significant geothermal resources, which by themselves could easily power the nation into the next millennium.

With that background, the next question is, from an industry development point of view and from Australia's economic point of view, how do we ensure that the world's largest renewable energy companies want to come and build and run projects in Australia for the benefit of the Australian economy? Again, that really is just a broad background. Within the context of renewable energy, I often say that Australia is the Middle East of renewable energy and Western Australia is the Saudi Arabia of renewable energy. We are an energy superpower based on our renewable energy resources.

We have spoken to our members about their views on the amendment bill and the bill itself. As an industry based association, it is our members' views that we represent here. Very firmly our members are of the view that they have been disappointed in the legislation with the linkage between the Carbon Pollution Reduction Scheme and the renewable energy bill itself, because of the uncertainty and the difficulties that this has created in the passage of this legislation.

The linkage between the bills, we believe, has been a poor policy outcome and has detracted from the focus of the bill, which should be about promoting a renewable energy industry in Australia. It is separate from a Carbon Pollution Reduction Scheme, it is separate from an energy efficiency target and it is separate from all those other measures—which are certainly of equal importance and certainly of great importance, but to have tied them in this way has created difficulties for the passage of the legislation and, as a consequence, for the industry.

The other part is the response in relation to the emissions-intensive trade-exposed businesses. For some retailers this could well represent a challenge for pricing, where renewable energy certificate liabilities may in fact be exacerbated where emissions-intensive trade-exposed industries are highly represented in a particular patch, such as in Western Australia and certainly in Western Australia off grid.

Another part that we are keen to emphasise is the fact that renewable energy commitments will deliver new projects and new jobs and diversify energy supply in the clean energy sector and that the delay that is coming

about from the legislation is delaying those projects that, at this time of the global financial crisis, could be delivering new employment opportunities and new projects to Australia right now.

Uncertainty has surrounded the passage of the bill. In particular, the issue to do with solar credits that the solar industry and the domestic renewable energy industry are now relying on to continue certainty within the industry has in fact created uncertainty amongst businesses and employers. Some of those businesses are talking of putting off staff. I had one business report to me that, on the back of that, their business plan is almost redundant and they may in fact have to close their doors. At a time when we are trying to promote renewable energy in this nation, I think that is an undesirable outcome.

We have seen, undoubtedly, strongly growing commitment to a whole range of measures in sustainable energy from governments of all levels. In particular, the federal government is to be congratulated for advancing strategies in this space. But it is also important to recognise that Australia, despite all these efforts, remains a long way behind other nations. There is so much more that we need to do. Scotland has a population of 5.2 million people. Australia has 20 million people. Scotland has a 19 per cent use of energy from renewable sources. Australia is at around four per cent. There are so many more things that we can do. Sunny Scotland has 70 megawatts of solar panels installed. We have something less than 40 megawatts. And Australia is much better endowed, by far, with renewable energy resources in general and solar resources in particular. The amount that we have done to date is really only a starting point. To consider that the market is overheated or overwhelmed at this scale in Australia really does not recognise the depth and the value of the resource that can be delivered.

Just to emphasise that point: while Australia is starting to take much stronger measures than previously on the growth of the renewable energy industry, it is off a very low base. While the proportions are very high, the numbers themselves are very, very low. We need to make greater efforts in this space to make sure that we encourage the security of supply of energy in Australia, that we encourage, as a consequence of our use of renewable energy, domestic development of energy sources. As a consequence of that, we can develop and diversify our manufacturing base to address the diversity of renewable energy opportunities that there are, to lead directly into new projects, new jobs and new businesses created in Australia.

CHAIR—Thank you very much. I am quite interested in what you have said. You have described Australia as the Saudi Arabia of renewable energy potentially. It really is a potential, isn't it, not a reality? Australia does have great solar resources but, so far, the technology has not been developed to use solar power for baseload electricity. We do not have easy access to hydro like some countries such as Norway and New Zealand—although we do in Tasmania. Geothermal is another area where we do have potential, but it is potential rather than something we can actually lock into in the short term, is it not?

Prof. Wills—If we start with the stuff we know we can build today, with wind, the amount of deployment of wind in Australia is still only a couple of per cent of our electricity generation, yet in California, for example, it is very much in excess of 10 per cent. There are many things in wind where we can build known technologies today but we simply have not deployed them. In terms of solar thermal, solar thermal is a recently arrived technology, there is no doubt. With any cost curve in a new technology, it is always higher from the starting point than it will be in a decade or two, but the reality is that we can build solar thermal today. It is roughly equivalent in pricing to building a nuclear reactor, so it is about \$4 million a megawatt, sometimes \$3 million. It is very comparable to nuclear technology in terms of cost today. The difference between solar and nuclear is twofold. One is that solar will get cheaper, whereas nuclear is a mature technology and is currently at about its relative rate of cost reduction. It will not get that much cheaper. So solar has the opportunity to create a cheaper energy source into the next decade.

Senator PRATT—Those nuclear costs would not take into account the very long-term waste management costs attached to nuclear power, would they?

Prof. Wills—That is correct. The cost of the retirement of nuclear plant is something that is passed on to the community and that the community bears, usually, not the business that has been involved in that production. Secondly, at the end of the life of a nuclear plant we are left with that waste, and at the end of the life of a solar plant we simply recycle it and start it all over again with, hopefully, an even better, improved technology.

Senator EGGLESTON—With respect, the House of Representatives did an inquiry into nuclear power a couple of years ago. The waste is very small and quite manageable. I think nuclear waste is an exaggerated issue.

Prof. Wills—I do accept that the nuclear waste issue is manageable—I do not actually have a problem with that—but it is an issue that then has to be managed. It is an external cost that tends to be given to the community. So, while I do accept your proposition that it is a relatively manageable product, it is a long-term product that the community then has the cost of managing.

Senator EGGLESTON—That is true. But where I was going with this was: sure, we can talk about renewables and wind, but wind is intermittent, and most renewables are, in fact, much more costly than the kinds of sources we are using for baseload electricity now, like gas or coal. Isn't that the case?

Prof. Wills—If you were to draw a line in the sand and say, 'Today we can build a coal-fired power station cheaper than we can build a solar thermal power station,' I would say, 'That is absolutely the case.' However, that still does not include the cost of the carbon that would be emitted as a consequence. We have yet to put a cost on that.

I guess the second element is that the reason that we need renewable energy today is to do something about carbon. If I may offer an analogy: the IT industry in the 1980s started without government intervention. It started because there was a perceived demand for the technology, and businesses paid at the very expensive end of the technology curve in the eighties for IT equipment that over the last 25 years has become very affordable and very mainstream. I have no doubt that the renewable energy industry, if left alone, would do the same thing over the next 25 to 30 years. But the challenge for us here, today, in 2009, is that we want technologies that will reduce emissions today and not in 20 or 30 years time. So the problem for us is that we actually have to pay the premium price for a service that cannot really be delivered in any other way at this point—that is, emissions-free energy.

Senator EGGLESTON—That is all very well, but the cost is higher to the consumer, and I just wonder how realistic it is to set an MRET target of 20 per cent for baseload electricity and not impose a huge additional cost on the Australian consumer. You talked about adding in the cost of carbon; that is all very well but, again, down at the bottom of the line there are ordinary Australians who will pay more for consumer goods and the power in their houses if this target is implemented.

Prof. Wills—Absolutely; I agree with you that, ultimately, we are yet to pay the true cost of energy. As a market based economy all the things that we do must be cost-reflective, and in energy generation we are still not in that place. There are two factors in play. Let me use Western Australia as an example. In the last year, the Western Australian electricity generation system was subsidised to the tune of something like \$700 million. The Western Australian government is looking to raise energy pricing in response to that, and they are to be congratulated for doing so. The consequence, though, is naturally that energy bills will rise. One of the problems that we face is that for the last decade energy has been on sale—there has been a 50 per cent price reduction. On 1 July 2009 the sale ended and we are now starting to pay the true retail price of energy.

Senator PRATT—Can I ask a follow-up question?

Senator EGGLESTON—Let me finish my line of questioning, with great respect. It may be true to say that people should pay the true price of energy, but why not just have a system based on gas, for example, rather than go to expensive kinds of renewable energy, because the cold, hard fact about renewable energy is that it is very expensive, and setting a target of 20 per cent is going to greatly disadvantage the ordinary man and woman in the street with higher costs. Isn't that the case?

Prof. Wills—No. I mentioned the price of \$700 million. In Western Australia, roughly four per cent of energy generation of electricity comes from renewable sources. With a \$700 million subsidy, that means a figure in the range of \$670 million to \$680 million of that subsidy is actually going to the fossil fuel industry. Is it surprising then that the renewable energy industry cannot compete, when the traditional energy sector is receiving a subsidy of that magnitude? The very important part of sustainable energy, and a very upfront part of sustainable energy, is that the very first thing you need to do is create energy efficiencies. It is absolutely true and I accept that we are saying that energy prices have to rise, but there is no reason why at the end of the year anybody's energy bill has to be any higher.

Whether it is domestic customers or business customers, we know that there are substantial savings that can be made through energy efficiency in buildings, either in homes or in businesses. Central Park here in Perth, for example, over the last 18 months has improved energy efficiency by 50 per cent. That means that their energy bill at the end of today, even if they were to buy green energy, would be less today than it was 12 months ago. We need a concerted package, a consolidated and integrated package, of measures that ensures

that we can do things about energy conservation that reduce the cost but at the same time produce energy that is emissions free.

CHAIR—I do accept more energy-efficient buildings are a highly desirable objective and no doubt we will get there as time goes on, but how do you quantify your \$700 million subsidy to Western Australian energy consumers? Where is the subsidy coming from? What is it?

Prof. Wills—That is a figure from the Western Australian government based on the fact that pricing in Western Australia is capped. It is not my number; it is their number.

CHAIR—Can you provide us a reference for that?

Prof. Wills—It is a number from the Office of Energy of the government of Western Australia, but I will look to source a report. That report was released earlier this year by the Office of Energy by the Minister for Energy, Peter Collier, and was why the Office of Energy recommended to Western Australia that over three years there should be a 146 per cent increase in the price of power, because of the subsidies that exist in the system to date.

CHAIR—I know and understand that but, nevertheless, the relative increase in the cost of power by going to renewables will be much greater. Isn't that also the case?

Prof. Wills—No. If we were paying 146 per cent more for power today, we would not need any subsidies for the wind industry, none at all.

CHAIR—The wind industry is a very inefficient industry. Wind does not blow every day and it is a long way from the major centres of population in this country. It is all very well in Denmark or Germany. There are problems with the wind. I do not think that is a particularly good example.

Prof. Wills—They are not insurmountable problems.

CHAIR—What are we going to use as baseload power from a renewable source?

Prof. Wills—We can use solar thermal immediately for that process.

CHAIR—Not at the moment, I would not have thought.

Prof. Wills—Yes, we can.

CHAIR—Well, why are not we doing it?

Prof. Wills—That is a good question: why aren't we doing it?

CHAIR—Because the technology is not considered up to it.

Prof. Wills—No. The technology is there. There are 200 megawatt solar thermal power stations built in Spain already, in North Africa already, and in California they are building them today. California has a target of 120 gigawatts of energy generation. By 2030 they are planning to have half of that done by solar thermal and they are starting to build them today. They are already on that price. California's energy price is actually close to the cost and, in fact, it is the cost of generation. Therefore, the renewable energy technologies are already more competitive in California than they are in Australia as a consequence of the subsidies and the traditional low-energy pricing that Australia has enjoyed for many decades. It is on the back of those energy subsidies that Australia has in fact developed, to our credit, great fortune and great wealth.

Australia is the 59th largest country in the world by population. We are the 15th largest in the country in the world by economy. We are the 13th wealthiest people in the world by income per capita. We are a nation that can not only have the joy of having the resources we have but we also are a nation that can afford to start construction of these resources to deliver for the 21st century new industry that will create new jobs, new employment and will be the energy source of the 21st century.

CHAIR—I thank you for your comments but I do not accept your thesis. I believe renewable energy will result in huge increases in domestic power costs and a great impost on the Australian economy.

Senator PRATT—Can I ask as a follow-up to that: how do we prevent the perception because Western Australia is up for some big energy cost increases? In part that is because the government has kept electricity prices artificially low. At the same time, how are we going to disaggregate the question of which of those price rises occur because of either the costs of the RET versus the national increases in prices that have been held artificially low? How do we differentiate those issues?

Prof. Wills—It certainly is a challenge and I have heard a number of different sources suggest that energy price is rising because of renewable energy, but in fact it is not. For 15 years in Western Australia we have not

seen one single price increase over that period and as a consequence the price of energy is way below what would have been delivered by the CPI. That is what the energy report was about.

Senator PRATT—That is because we now have an energy infrastructure here with a network that has been underinvested in, therefore we are trying to play catch-up in finding the extra money to invest in it. Is that one of the drivers?

Prof. Wills—The network does need to be expanded. The advantage of an expanded electricity network is no different to an expanded broadband network. If you build broadband for internet services you then have new businesses and new competition across the broadband network. In the same way the same analogy can be drawn to the energy market. The wires and the transmission system are very much the broadband of electricity delivery services. When you develop that broadband you find that there are businesses and energy generators that can establish new operations in new places.

In the last century governments built energy networks to places where we found energy sources. In Western Australia that was initially in Collie where there are large coal reserves and then, in the eighties, to the North West Shelf where there are large gas reserves. It was government that built those networks. In the 21st century, when we are looking for renewable energy resources, one of the challenges and one of the costs that will be put to the network is the fact that the renewable energy resources are not where the coal is, and the renewable energy resources are also not where the gas is; they are in different places. We need the networks to go to those places so that we can harvest that energy in the same way that we harvested energy from coal in the last century. To achieve that will be a new cost to the community.

There will also be new economic activity and ultimately it will lead us to an energy source that is in fact anti-inflationary. That is because, in 30 years' time, I do not know what the price of coal will be or what the price of gas will be, but I am fairly confident that in 30 years' time I know what the price of sunshine will be. As a consequence of that, if we learn to harvest that energy resource, we will be able to create an energy source that does not add inflation to the economic figures and the GDP of the nation. That means also from a business point of view you can start to add certainty to long-term planning. While you might not know what the energy price is for a project based on fossil fuels today if you lead into 10 years' time, you can know with certainty that sunshine, wind, waves crashing on our shore and the rocks under our feet can deliver energy at a known cost because the cost of energy delivery will not change. There will be, of course, some natural creep in terms of asset management and maintenance costs that will go with it, which will certainly contribute to some price rises in energy, but not of the scale of the fossil fuel industry.

Senator PRATT—Professor Wills, can I ask you about the RET bill that this committee is considering. You highlighted that you do not like the link between this bill and the Carbon Pollution Reduction Scheme, but are there any other aspects to the bill that you would like to draw our attention to and address any issue you like in answering that? One of the other questions I would like to ask you about specifically is: which technologies meet the definition of renewable energy for the purposes of this bill?

Prof. Wills—There are a couple of questions there and remind me if I miss some. I guess starting from the point of view of creating markets, I take the chair, Senator Eggleston's, point that there are additional costs associated at this point in the marketplace with renewable. Therefore it is critical in the development of a renewable energy market that we see market competition between different forms of generation and different places of generation so that those costs are minimalised through that competitive force.

Using Western Australia as an example, it is important that we create the networks there so that we can have as many different generators as possible looking to get onto the grid and looking to deliver pricing competitively with other businesses. In that context, there are some challenges for us in looking at the way that the renewable energy target is met and the diversity of projects that might be stimulated as a consequence. Within the framework, I would advocate that the bill is kept as simple as possible so that it may progress as quickly as possible. Having said that, there are some challenging questions as to whether or not a bill such as this should simply only recognise electricity generation from renewable energy or whether it should be more broadly based into energy displacement by things such as solar hot water or through heat pumps or other things that create energy displacement. For example, the University of Western Australia has a project on its books where they are looking at using hydrothermal water that is on the campus to create 10 megawatts of heating and cooling on campus, and that would fill 95 per cent of the heating and cooling requirements of the campus.

Senator PRATT—But that is not electricity.

Prof. Wills—That is not electricity; it is energy displacement. The challenge that they face is that energy displacement is not recognised under the renewable energy target as a renewable energy scheme and therefore it does not qualify for a renewable energy certificate. It is real energy but it is just not electricity, so I guess we need to look closely at those definitions. I would prefer to think that electricity generation would be met simply by this bill and that energy displacement would be achieved by other measures. That would have a dual purpose. If the target were to be retained, then only electricity generation would meet the target, whereas energy displacement through hot water or heating and cooling, or through other measures, would be created through other sets of incentives that would, again, in particular diversify the market, diversify the responses, and increase and improve competitive potential. Those projects would compete against others so that the least cost projects would be delivered where possible.

Having said that, I would like to say also that it is important in doing these assessments to recognise that least cost does not always equal best value. Least cost energy at the moment is coal fired energy that releases carbon emissions which create a cost to us into the future. Let me offer a different example where least cost does not equal best value. I have tried to come up with an adequate analogy for this in the past. I think the best analogy I have found for today is in fact a cup of coffee. Given that I have parliamentary privilege and that I cannot be slighted, I think that everybody around the table will agree with me that Blue Mountain coffee out of a percolator is far better than International Roast out of a tin. The International Roast is least cost; the coffee that we all choose to consume because we recognise the value of it is in fact the coffee that is coming out of the percolator. Some people cannot afford to do that, and that leads to Senator Eggleston's point that we must be concerned with those who cannot afford the Blue Mountain coffee and therefore that we need to do something for those who have to consume the International Roast so that they can do that with perhaps more satisfaction. In delivering cheaper energy to some of those places we need to keep that in mind. There are a range of analogies in that space, but I think that is a rather interesting one because many of us now choose to drink something that is much or expensive than we did a decade ago.

Senator PRATT—With respect to the RET, Professor Wills, how do you see that interfacing with the Western Australian energy market? Clearly there have been significant changes in terms of it having been disaggregated and separated. Now I understand that the state government is looking at rejoining and undoing the disaggregation. What are the implications for the renewable energy sector here in relation to utilising the RET?

Prof. Wills—Again there are a number of diverse aspects to that question but, in particular, the potential for the remerger of Verve and Synergy will remove market choice and market competition. At the moment Synergy, as a retailer, can go to whatever supplier it likes and Verve, as a wholesale of energy, can go to whichever retailer it chooses to go to. That creates market tensions that did not exist three years ago prior to the demerger.

We need to get to a free market economy in Western Australia in the energy market. One example of that is that 100 years ago governments did not grow wheat and still do not today; 50 years ago governments did not shear sheep and still do not today; but, unfortunately, 100 years and 50 years ago governments were involved in energy generation, which is simply another commodity, and are still involved in it today. If we are to free up our markets and our economy to create market tension and to create competitive tension, then we need to see continuing reforms, particularly in the energy market, to ensure that the best value energy is delivered to our homes as part of that. The remerger of Verve and Synergy, in our view, would be countercompetitive to the whole energy sector and in particular to the renewable energy sector.

Since the demerger there have been over 200 megawatts of renewable energy come on stream that did not exist prior to the demerger. Since the demerger there has been, roughly, \$600 or \$700 million worth of investment in renewable energy that did not exist prior to the demerger. Those changes in the marketplace in the competitive market and in creating a contestable market for generators has created the opportunity for renewable energy generators as well as other generators such as gas based, gas fired generators.

CHAIR—Senator Cameron, do you have any questions?

Senator CAMERON—Yes, I have. Professor Wills, are you aware of the McLennan Magasanik Associates report of January 2009 done by the Department of Climate Change and Water?

Prof. Wills—Yes, I am familiar with it.

Senator CAMERON—When I say ‘done by’ I mean that it was commissioned by the department of climate change. The estimate in that report is that the cost to generate renewable energy will only be seven per cent of the total cost of generation as it stands now. Is that roughly equivalent to what you would estimate?

Prof. Wills—That is in context of the 20 per cent renewable energy target?

Senator CAMERON—Yes.

Prof. Wills—Yes, I accept that figure from the report.

Senator CAMERON—The other figure in the report is that—obviously there is going to be a reduction in the efficiency in the economy if you are paying extra to introduce it—overall in the economy GNP would only decline 0.01 per cent—

Prof. Wills—Yes.

Senator CAMERON—and in Western Australia it would be 0.07 per cent. Is that equivalent to what your estimates are on this?

Prof. Wills—I guess I challenge those numbers in particular because the way that the modelling is done is based on the impact of increased energy costs on traditional energy sectors. What we will be seeing are two things. The first is that we will be seeing an increase in energy price, which will encourage people to actually use less energy by finding measures that reduce their energy consumption. The second thing is that, with energy efficiency incentives being created by government, there is the opportunity in fact not only to reduce energy consumption but, by my contention, to actually reduce the overall energy bill through substantive energy efficiency measures. Even though the price per unit of power increases, it is my contention that in the longer term energy efficiency measures will actually reduce overall power consumption.

It has been shown quite extensively that, if a nation can decouple or rather reduce the impact of energy on its GDP, the overall wealth of the nation increases. I think one of the challenges for the particular report and for most of the reports in the sector is that, while they fairly attribute costs to the traditional energy sector, they do not talk about the GDP gains that are attributable to the new businesses and the new industries right across sustainable energy. Everything from energy efficiency equipment suppliers and energy efficiency consultants, who are creating savings for businesses, all the way through to the new businesses that are created as part of that.

That part of the equation is not included in the GDP impact and, as a consequence, the overall impact of using renewable energy is considered to be negative. I do not accept that that will be the case. I believe that it will create growth in exactly the same way that, if we went back 40 years it would be hard to conceive how the IT industry could create jobs and new projects, but here we are 30 years after the creation of the IT industry and we can see that there is significant job growth, it has not added cost to businesses and has actually created savings. By analogy I believe that energy efficiency will do the same thing once we have significant drivers in place for energy efficiency to be an imperative and for energy efficiency to be a major factor in the way businesses do business.

Senator CAMERON—This report also indicates that the CPRS on its own would not be sufficient to drive investment in the renewable energy area. It says that we need both CPRS and RET. Is that your view?

Prof. Wills—Yes. While I certainly believe in a light hand of government and regulation where practicable, there are certain measures where we need to see the significant leadership of government to create regulatory and structural changes that lead to better behaviour. The example that we see is in water conservation. If I can use ABS data, in 1992, fewer than 40 per cent of households had dual-flush toilets. The housing industry itself was opposed to actual measures in water conservation because they believed it would add cost to the housing industry. Yet in 2006, because of regulation, nearly 90 per cent of homes had dual-flush toilets according to ABS data and now we just accept that water conservation is a natural part of what we do. We are yet to reach that same point in energy conservation and when we do energy conservation measures will not only be accepted but the value of those will be realised. That is your point about the CPRS.

The association’s view is that the CPRS is about emissions reduction and emissions control. Although in sympathy with, but separately from, the renewable energy target is an industry development package that is about the development of a new industry for Australia that will create new products and new financial wealth for Australia making use of domestic energy resources that we have in abundance. While they are complementary by all means the purpose of them—and the purpose of them can certainly be additive—

ultimately I believe that the renewable energy target should very much be about industry development, national development and the development of Australia's economy.

On top of that I note that the federal government today has announced energy efficiency measures in this space. We have been previously critical of the current government about delays in getting on with the job of energy efficiency because it has been the association's view that energy efficiency is the low-hanging fruit that reduces the impact of these other two measures. Energy efficiency is a separate measure, it should be treated as a separate measure, but should also be of the highest priority because it is a very effective transitional measure to avoid some of the costs that the report of 2009 that you referred to was actually drawing conclusions on. I guess there are other measures that I could allude to but I will leave that answer there.

Senator CAMERON—Do you have members who are involved in coal fired power production?

Prof. Wills—Yes, we do.

Senator CAMERON—Have any of your members notified the stock exchange that the RET and the CPRS would lead to their being bankrupt?

Prof. Wills—I am not aware of any such claims. Certainly, while we have members with coal interests, they also have significant energy efficiency and renewable energy interests, and they have a fairly diverse portfolio. We do not have any operator that is solely, for example, a coal fired plant operator. Within our membership, I am not aware of any of our members that have done so. Certainly, I think that there is logic to the fact that, at some point in the future, coal fired operations will prove to be untenable. Whether that is a decade or five decades, I will not put a number on.

Ultimately I do not see it any different to the fact that we no longer manufacture buggy whips for horses to draw carriages, we no longer ride on the sheep's back and we now have an IT industry. Industries change and evolve all the time. We should expect that some industries will disappear and others will replace them; that is the natural evolution of an economy. I think in the nature of the coal industry, at some point in the future, we will see that happen before the sources of coal run out.

CHAIR—What was the name of that report?

Prof. Wills—It is the McLennan from the department of climate change.

Senator CAMERON—It is McLennan Magasanik.

Prof. Wills—Yes, MMA is the acronym. It is much easier to refer to the acronym.

Senator PRATT—I want to return to the question of the Western Australian energy market to try and better understand what the issue might be with the demand to meet renewable energy requirements. Western Australian energy suppliers will be obligated to meet the requirements of the RET, which is the 20 per cent target over time, but that they might not be open to fair competition in the market access terms within what is currently Western Power and Synergy. I do know that, historically, renewable energy and even other fossil fuel energy suppliers have had trouble getting access under the previous arrangements. How is it that, if buyers are not disaggregated and separated, someone internal to the company such as a power supplier internal to the company might be advantage over someone who is trying to sell into the network externally?

Prof. Wills—I guess the key is that a Verve-Synergy business will dominate major markets across Western Australia with well over two-thirds of energy generation coming from those sources. I cannot give you an exact number; I would need to check that figure, but it would be around about that quantum. I guess the challenge is that, with diversity of generators and with people looking for an increase in renewable energy supplies, we would be looking to an increase in retail competition in that space.

In Western Australia there is a contestable retail market only for the business community. Domestic customers cannot source their energy from anybody but one supplier and that is Synergy. That is subject to a ministerial review in another few years, I think in 2012, and the consequence of that is that, at the moment, no other retailer can sell to a domestic customer on the south-west interconnected system. So that creates some challenges.

A separate issue is that, at a small business scale level, small businesses are unable to sell their electricity back to the market because the only way they can do so is to deem themselves an electricity retailer, which carries with it a substantive cost in terms of licensing. If you are a video shop or a corner deli and you want to put 15 kilowatts of solar onto your rooftop and sell it back to the grid, the answer is you cannot. One of the challenges for the domestic market and for the commercial market in Western Australia is in fact for continued reform in the marketplace that diversifies suppliers and that diversifies sellers, so that competitive tensions can

be created. It is very difficult in a monopoly situation to actually have that happen. In fact, the usual consequence of a monopoly, as we see in other sectors across Australia, is that if one or two players dominate the market then the competitive market is not that strong and usually the market regulators, the ACCC or others, closely scrutinise those markets to ensure that there is competition. The best way to overcome that is to ensure that there is a diversity of players, and in that scenario the need for government regulation is minimised.

Committee adjourned at 4.05 pm