

25 May 2010

Committee Secretary
Senate Standing Committee on Environment, Communications and the Arts
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Senate Standing Committee on Environment, Communications and the Arts Inquiry into Renewable Energy (Electricity) Amendment Bill 2010 [Provisions]; Renewable Energy (Electricity) (Charge) Amendment Bill 2010[Provisions]; Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010 [Provisions]

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to make a submission to the Senate Standing Committee on Environment, Communications and the Arts Inquiry into Renewable Energy (Electricity) Amendment Bill 2010; Renewable Energy (Electricity) (Charge) Amendment Bill 2010; Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010.

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies, and hence energy policies. AIGN's membership represents companies that produce nearly all energy in Australia, use nearly all energy in the mining and manufacturing sectors of the economy, and are important to energy use in transport. A list of AIGN members is contained in Attachment A.

AIGN's members have a range of views on greenhouse and energy policy. This submission accords with the views of AIGN members in general, though it may differ in some particulars from the positions of some individual member associations and companies. Some members have prepared submissions of their own, and this AIGN submission should be read in conjunction with those submissions.

The Bills

AIGN has serious concerns about the additional costs electricity consumers will bear as a result of the Government's decision to adopt the SRES and LRET policies. AIGN urges the Senate to amend the Bills to limit these costs for all consumers, including trade-exposed industry.

MRET was originally designed as a relatively efficient market mechanism, notwithstanding that it was not a low cost solution to greenhouse gas emission reduction. However, constant Federal and State government intervention — by introducing the RET, and by providing rebates for installation and feed-in-tariffs for SRES technologies — has removed most market efficiency benefits from the scheme. The new policy of

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establishing an SRES and LRET removes any remaining claimed economic efficiency rationale from the scheme.

In particular, the new proposals ensure increased costs, uncertainty and risk exposure for liable parties and electricity consumers. The uncertainty and risk exposure arises from:

- The SRES is uncapped and in combination with State subsidies creates an unlimited liability for increased electricity costs for consumers
- There are potentially more changes arising from the COAG review in 2010 adding to uncertainty
- Another review is proposed for 2014 which is likely to require changes to the scheme to rectify the consequences of these Bills
- The Bills require that, should the SRES not meet its minimum quantity targets, the LRET targets are to be increased, adding costs and uncertainty for consumers.

The effect of the SRES proposal is to remove all price risk from SRES suppliers and to substantially reduce the price risk faced by LRET suppliers. However, these risks have not been removed from the renewables markets — rather, they have been transferred to liable parties and electricity consumers.

Should the Government wish to persist with the SRES and LRET policies, AIGN urges the Senate to make the following improvements to the schemes:

- a) The SRES should be capped at a level that includes the impact of States feed-in-tariffs and other subsidies, which some commentators suggest is in the order of 10,000GWh by 2020. AIGN recommends that Senate seek from the Government the modelling used to determine the 4,000GWh SRES (and 41,000GWh LRET). The SRES and LRET (see below) caps should be independent of each other.**

The Government asserts that the SRES is only likely to result in 4,000GWh of electricity by 2020.

However, the Government has failed to release its modelling of the new scheme and to justify this number. Indeed, the Government asserts that the SRES and the LRET will together deliver more than the required 45,000GWh target. Some suggest that the new schemes may be so successful that they will deliver 51,000GWh, the additional costs of which will be borne by electricity consumers.

It is possible for SRES technologies to receive three subsidies (RECs, installation rebates and feed-in-tariffs) in some locations. As noted by Dr Parkinson, Secretary of the Department of Climate Change and Energy Efficiency, in a recent speech to an Australian Business Economists Luncheon on 31 March 2010:

“...if all the households in Australia were to install a 1.5 kW photovoltaic panel overnight, this would save in the order of 13 Mt per annum in 2020, less than one tenth of the 144 Mt required to meet a 5% target. Action by households is a critical component of our



response to climate change, but will not be nearly enough on its own. Moreover, the upfront cost of such a policy would be astronomical – in order of \$200 bn. With more plausible implementation over ten years, we might be able to lower this cost to close to \$100 bn. Lower, but still hugely expensive abatement.”

Yet the policy design is to allow the quantity of SRES to be uncapped — that is, to encourage more and more of this “hugely expensive abatement”.

In the face of these multiple Federal and State subsidies, the robust Federal policy approach should be to terminate the eligibility of SRES technologies for SRECs in 2015. At the very least, Bills need to be amended to cap the SRES at 10,000GWh in 2020 and to delink the SRES from the LRET.

b) The LRET should be capped at 35,000GWh in 2020

The arbitrary determination of the LRET cap at 41,000GWh in 2020 appears excessive when assessed against the general commentary about the likely outcomes for the SRES as States continue to adopt aggressive feed-in-tariffs.

AIGN recommends that the LRET target be set at 35,000GWh in 2020.

c) The 9,500GWh from the old MRET scheme should be fully eligible for EITE assistance. Further, the ‘additional assistance percentage’ should be delinked from the CPRS. All trade exposed industry electricity consumption should be exempt from the schemes, and the SRES and LRET caps reduced proportionately. Alternatively, to offset the increase in SREC and LREC prices above the old REC prices, the EITE percentages should be lifted to 94.5% and 66%.

AIGN continues to recommend that all trade exposed industry should be fully exempt from the RET, including the first 9,500GWh from MRET.

The “Enhancing the Renewable Energy Target” Discussion Paper committed the Government “to preserve the effective rate of assistance in respect on EITE activities provided for under the current RET”. Retaining an uncapped SRES and proposing that the LRET be increased to take-up any shortfall in the SRES is inconsistent with this commitment.

An uncapped SRES means an uncapped liability for electricity consumers, including EITEs, at a now guarantee price of \$40/MWh for SRECs — immediately after its announcement the SRES policy resulted in a \$5/MWh increase in the costs to be borne by electricity consumers for these renewables. The separating of the current RET market into the SRES and LRET markets has also already had the intended effect of increasing the price of LRECs above the current REC price — prior to the policy they were trading at around \$35/MWh and jumped to around \$43/MWh after the policy announcement. Finally, should the SRES market not meet the minimum targets, the shortfall is transferred to the LRET market, further increasing LREC prices above the current REC.



Taken together, these policy changes increase the total cost of electricity (price times quantity) to be imposed on consumers. To preserve the effective rate of assistance to EITEs for these total costs relative to the current RET, it will be necessary to increase the 'base k' and the 'additional assistance percentage' above 90% and 60%. AIGN recommends that the RET be amended to provide for 94.5% and 66% assistance rates respectively to EITEs.

The 'additional assistance percentage' is linked to the passage of the CPRS. Given the decision of the Government to delay the CPRS, the RET legislation should be fully delinked from the CPRS.

AIGN points out that the EITE activity definitions are likely to cover less than 70% of electricity use by trade exposed industry. Without 100% assistance for all trade exposed industry, the RET scheme is creating a competitive disadvantage for Australian manufacturing and mining industry.

Government interference has undermined any policy rationale the renewables market may have originally had. Further government intervention is not the answer. Indeed, it is very likely that additional unintended consequences will ensue. As an example, the combination of an uncapped SRES and State feed-in tariffs is likely to remove any incentive for households to use electricity efficiently — thereby directly undermining to objectives of the Prime Minister's Taskgroup on Energy Efficiency.

Yours sincerely

Michael Hitchens

Chief Executive Officer



ATTACHMENT A: AIGN MEMBERSHIP

Industry Association Members

Australian Aluminium Council
Australian Coal Association
Australian Food and Grocery Council
Australian Industry Group
Australian Institute of Petroleum
Australian Petroleum Production and Exploration Association
Australian Plantation Products and Paper Industry Council
Australian Trucking Association
Cement Industry Federation
Federal Chamber of Automotive Industries
Minerals Council of Australia
National Association of Forest Industries
National Generator's Forum
Plastics and Chemicals Industries Association

Individual Business Members

Alcoa World Alumina - Australia
Adelaide Brighton Cement
BlueScope Steel Limited
BP Australia Limited
Caltex Australia
Cement Australia Pty Ltd
Chevron Australia Pty Ltd
CSR Limited
ExxonMobil Australia Limited
Hydro Aluminium Kurri Kurri Pty Ltd
Incitec Pivot Ltd
Inpex Browse Ltd
Leighton Holdings Ltd
Origin Energy Limited
Qenos Pty Ltd
Rio Tinto Australia Limited
Santos Limited
Shell Australia Limited
Thiess Pty Ltd
Tomago Aluminium Company Pty Ltd
Wesfarmers Limited
Woodside Petroleum Limited
Xstrata Coal Australia Pty Ltd