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A few words.

The Renewable Energy Sub Group Secretariat
Renewables, Offsets and COAG Branch
Department of Climate Change
GPO Box 854
CANBERRA ACT 2601

20 February 2009

Dear Sir/Madam,

AGL welcomes the opportunity to comment on the Discussion Paper, *Treatment of electricity-intensive, trade-exposed industries under the expanded national Renewable Energy Target scheme*.

AGL has been a strong supporter of renewable energy and is Australia's largest privately owned renewable energy generator. AGL supports the provision of assistance to energy intensive industries that can demonstrate commercial detriment associated with higher costs because of: export/import competition; and/or an inability to pass on higher costs to consumers.

Should you have any questions or comments on this submission, please contact Tim Nelson, Head of Carbon Analysis and Government Affairs on (02) 9921 2516 or at tanelson@agl.com.au or Beth Griggs, Head of Carbon Policy and Regulation on (03) 8633 6077 or at egriggs@agl.com.au.

Yours sincerely

Kirsty Norris
General Manager
Carbon and Sustainability

AGL SUBMISSION ON THE PROPOSED EXPANDED RENEWABLE ENERGY TARGET

1. Introduction

AGL Energy (AGL) is Australia's leading energy company and Australia's largest privately owned renewable energy generator. AGL is well placed to comment on emissions trading and renewable energy targets because of the diversity of our operations. We operate across the supply chain and have investments in energy retailing, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction. The diversity of this portfolio has allowed AGL to develop a detailed understanding of the risks and opportunities presented by climate change policy, renewable energy targets and emissions trading.

AGL is Australia's largest retailer of gas and electricity with 3.3 million customers in New South Wales, Victoria, South Australia and Queensland. AGL has significant investments in upstream energy markets. We own and operate 645 MW of hydroelectric power generation assets, the 95 MW Hallett wind farm, the Torrens Island gas-fired power station (1280 MW), the Somerton gas-fired peaking power station (150 MW) and a number of landfill gas, biogas and biomass generation facilities. AGL also has a 32.5% equity investment in the Loy Yang A power station. We are currently constructing new hydro and wind assets and developing one of Australia's largest pipelines of renewable projects.

2. Should Assistance be Provided?

AGL strongly supports the provision of assistance to energy-intensive industries and low income residential consumers. Additional costs imposed on industries with high energy costs as a proportion of total costs are likely to reduce the competitiveness of these industries as they are competing with imports from countries without comparable schemes. AGL supports the provision of assistance to energy intensive industries that can:

- Demonstrate commercial detriment associated with higher costs because of export/import competition; and/or a

- An inability to pass on higher costs to consumers.

However, while it is critical that arrangements be put in place to support energy-intensive industries and low income residential consumers, significant consideration needs to be given to the continued regulation of retail electricity prices in all jurisdictions except Victoria. Where industries are declared 'exempt' (i.e. Option 2), the compliance costs for these industries will need to be spread across all other customers. AGL has significant concerns that regulatory outcomes will not provide for the full pass through of these costs to end consumers.

If regulatory outcomes do not allow for full cost pass through, the continued viability of retailers and the continued operation of the electricity market is likely to be threatened. It is critical that the CoAG consider this issue in conjunction with the issues outlined in the Discussion Paper. AGL believes that the CoAG's objectives cannot be delivered efficiently while State Government's continue to regulate the end price paid for electricity.

In this context, AGL believes that most residential and small business consumers will not be significantly impacted by higher costs resulting from the expanded Renewable Energy Target. Over the past 20 years, real income growth has significantly outstripped the growth in expenditure on electricity, gas and other fuels. Even with the higher costs associated with the proposed Renewable Energy Target, expenditure on electricity is likely to continue to decline as a proportion of total household expenditure.

In real terms, per capita household expenditure on energy has declined from 2% of all expenditure in 1985/86 to 1.4% in 2005/06. This decline has occurred even with real growth in final consumption expenditure on electricity, gas and other fuel of 32% over the same period. Real growth in total per capita household expenditure from 1985/86 to 2005/06 was 49%.[1]

3. Form of Possible Assistance

AGL notes that there are three options outlined for the provision of assistance: an exemption to exclude electricity purchases relating to specified RATE activities from liability under the RET; freely issuing RECs (purchased by the Government); and cash payments. AGL does not believe that any of these options can be implemented successfully. The limitations on each of these options is outlined in the Table below.

Option	Limitation
Exemption for electricity purchases related to RATE activities	Depending upon the threshold of assistance, this could result in a large proportion of electricity purchases being deemed exempt. Retailers would then need to pass through even higher costs to non-exempt customers. Unless electricity prices are deregulated, AGL believes that the level of cost pass through to other customers is likely to be inadequate. In this situation, the viability of electricity retailers is likely to be compromised.
Freely issuing RECs (purchased by the Government)	This option would require additional funding from Government. It would also expose the Government to significant price risks over the life of the scheme. It also has the potential to distort the REC market due to the large volume of compliance purchases by the Government on behalf of energy intensive industry.
Cash Payments	This option would require additional funding from Government. It would also expose the Government to significant price risks associated with the levels of required assistance varying with the REC price.

AGL believes that consideration should be given to a fourth option: the provision of additional free permits under the proposed Carbon Pollution Reduction Scheme. Given that the entities receiving assistace under the expanded Renewable Energy Target will also be receiving assistance under the Carbon Pollution Reduction Scheme, the same methodology could be used. This would have the following advantages:

- It would not affect the efficient operation of the REC market;
- It would not affect the efficient operation of the market for Australian Emission Units (AEUs);
- The assistance provided is likely to match the assistance required. As the AEUs will increase in value when costs of reducing emissions increases, they provide a physical hedge for energy intensive industry; and

[1] Australian Bureau of Statistics, Australian Social Trends 2007 (4102.0)

- AEUs can be sold into a liquid secondary market. The proceeds can then be used to pay for higher energy costs associated with the retailer's purchase of RECs on behalf of the energy intensive user.

If the Government does not believe that this option can be successfully implemented, AGL would support Option 4 (provision of cash payments).

4. Level of Materiality Threshold

AGL believes that the same materiality threshold should be used for both the Carbon Pollution Reduction Scheme and the expanded Renewable Energy Target. AGL believes that the Government should err on the side of caution and provide assistance that represents a conservative view of the cost impact on specific industries. This could be coupled with an appropriate 'windfall gains' review (as outlined in the White Paper for the electricity generation sector) to ensure that the Government is not exposed to unnecessary financial risk. The materiality threshold should not simply reflect the proportion of higher costs relative to total revenue or cost. Entities receiving assistance should also be required to demonstrate import/export competition or an inability to pass on higher costs for an identifiable reason.

5. Level of Support

AGL believes that the level of support should reflect the higher costs incurred by businesses that are either import/export competing or unable to pass on higher costs for an identifiable reason. An estimatation of projected higher costs should be used based upon the best available quantitative analysis.