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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 draft legislation and regulation underpinning the expansion of the Mandatory Renewable Energy Target through the new Renewable Energy Target scheme. AGL has been a strong supporter of renewable and clean energy and has consistently advocated for the expansion of the Mandatory Renewable Energy Target (MRET). AGL is pleased to note that all governments have committed to amalgamating existing State-based measures into the proposed national Renewable Energy Target.

Please find attached AGL's response to the changes outlined in the draft legislation and regulation. AGL believes that the Commonwealth and State Governments should seek to introduce an expanded target as soon as practically possible to promote investment certainty. AGL also believes it is critical that CoAG reach agreement on increasing the shortfall charge and provide for ongoing indexation of the shortfall charge to ensure compliance.

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. Responses to the Issues Raised in the Draft Legislation and Regulation

AGL has provided comments or a preferred position against each of the issues raised in the draft legislation and regulation in the Tables below.

Issue Raised in the Draft Bill	AGL Comment/Position
Item 1	AGL supports the proposed refinement to the objectives of the legislation.
Item 2	AGL supports the proposed extension of the scheme from 2021 to 2030.
Item 3 to 7	While AGL understands why these amendments are being proposed, AGL does not support specific support for one particular renewable technology. At the very least, AGL believes that CoAG should urgently consider and agree to amalgamating the number of feed-in tariff schemes in operation around Australia for small scale renewable generation.
Item 8	AGL supports the dual linear ramp up of targets proposed.
Item 9	AGL supports the proposed review of the scheme in 2015.

Issue Raised in the Draft Regulation	AGL Comment/Position
Item 1	Supported. This administrative provision is supported.
Item 2	While AGL understands why these amendments are being proposed, AGL does not support specific support for one particular renewable technology. At the very least, AGL believes that CoAG should urgently consider and agree to amalgamating the number of feed-in tariff schemes in operation around Australia for small scale renewable generation.

3. Other Issues

Penalty

AGL also believes it is critical that CoAG reach agreement on increasing the shortfall charge and provide for ongoing indexation of the shortfall charge to ensure compliance. AGL believes that the REC penalty rate (tax effective) should be set higher than the Long-Run Marginal Cost (LRMC) of the marginal project. The penalty should not be intended to reflect the market price, but to impose a cost higher than compliance with the scheme. This encourages compliance over time. However, it is crucial that the penalty be indexed to ensure it remains at an appropriate level in real terms.

Price Regulation

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. AGL has significant concerns that regulatory outcomes will not provide for the full pass through of 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 CoAG consider this issue in conjunction with the expanded RET. AGL believes that 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 the 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]

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