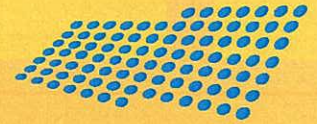


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21 August 2008

Committee Secretary
Senate Standing Committee on Environment, Communications and the Arts
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Email to: eca.sen@aph.gov.au

Dear Sir/ Madam,

EnergyAustralia's submission on proposed feed in tariff scheme

EnergyAustralia welcomes the opportunity to provide comments to the Senate Committee on Environment, Communications and the Arts (Committee) on its inquiry into a Bill to amend the *Renewable Energy (Electricity) Act 2000* (the Act). The Bill concerns the introduction of a feed in tariff scheme to provide greater financial support for the commercialisation of renewable generation technologies.

EnergyAustralia submits that the proposed feed in tariff should not be supported by the Committee. We consider that a feed in tariff would result in higher prices for consumers relative to an emissions trading scheme, and would not promote the development of low cost renewable generation. Our reasons are set out in this submission.

EnergyAustralia is supportive of cost effective measures that promote the commercialisation of renewable generation and which result in greenhouse gas reductions. For over a decade, EnergyAustralia has been an industry leader in the development of energy efficiency initiatives and innovative demand management programs. For instance:

- EnergyAustralia was the first utility in the world to mandate interval metering and Time of Use tariffs for all new and replacement meters.
- We have been on the forefront of demand management initiatives, implementing more demand management projects than any other Australian distributor.
- EnergyAustralia has supported renewable and embedded generation projects, for instance we own, operate and maintain embedded renewable generation facilities including a 400kW solar farm and a 600 kW wind turbine.

It is against this background of solid achievement that EnergyAustralia believes it is well qualified to comment on the Bill.

We note that the proposed feed in tariff is intended to supplement the existing mandatory renewable energy target scheme (MRET), the forthcoming carbon pollution reduction scheme (CPRS) and state based schemes. EnergyAustralia considers that the Committee needs to have regard to the purpose and effectiveness of the existing schemes when assessing the merits of introducing a feed in tariff. In particular, it is not clear to EnergyAustralia how the feed in tariff scheme would work alongside the MRET and CPRS in achieving the desired level of renewable generation.

To this end, we note that the Council of Australian Government (COAG) is currently reviewing design options for expanding the existing MRET scheme. The new scheme called the renewable energy target (RET) will increase the amount of renewable technology to 20 per cent by 2020. It is essential that COAG be provided with an opportunity to review the proposed feed in tariff scheme to allow for a cost effective and economy wide approach for reducing greenhouse gas emissions. As such, we consider that the Committee should refer its inquiry on the proposed feed in tariff to COAG as part of the review of RET. This would enable a full assessment of the likely impact of the suite of measures currently being considered by policy makers and ensure consistent incentives are provided to the energy market.

In regards to the proposed feed in tariff mechanism, EnergyAustralia would like to make a number of high level comments based on its experience in supporting initiatives that reduce greenhouse gas emissions. We recognise that a feed in tariff scheme provides incentives for the development of renewable technology. However, EnergyAustralia has concerns regarding the efficiency and complexity of the proposed scheme and submits that the Committee should consider these issues as part of its inquiry. Our reasons are set out below.

Costs and benefits of the feed in tariff scheme

EnergyAustralia considers that a feed in tariff option for the existing MRET will increase the costs of electricity for consumers and will result in long term inefficiencies in the development of renewable energy.

Under the MRET scheme, retailers are legally required to purchase a minimum level of renewable generation or pay a penalty for the shortfall. The scheme provides appropriate price signals for the development of renewable generation as retailers are incentivised to source renewable generation from lower cost technologies. As such, the MRET scheme minimises short term costs to consumers from lowering greenhouse gas emissions and also provides ongoing incentives for renewable generators to seek cost efficiencies.

In contrast, under the proposed feed in tariff scheme, a price is set for renewable generation without taking into account the relative cost effectiveness of the technology. Under these circumstances, low cost renewable generators would not be able to gain a competitive advantage over more expensive renewable generation. This would result in a market distortion and higher average prices for consumers, relative to the MRET, for the same level of greenhouse gas reductions. In addition, by setting the price for a period of 20 years, the scheme would lock in this market distortion and would not provide ongoing incentives to reduce the costs of producing renewable energy.

Supporting infant industries

A stated objective of the Bill is to provide greater financial support for the commercialisation of a broad range of prospective renewable energy technologies, particularly those that are generally unsupported by the MRET. EnergyAustralia considers there is merit in providing direct and transparent assistance to infant industries to promote the development of low cost renewable generation from a wide variety of sources.

We contend that a feed in tariff is not an efficient mechanism for providing assistance to infant industries. As explained above, the proposed feed in tariff does not provide incentives for the continued development of lower cost technologies and creates a market distortion by locking in artificial prices for renewable technologies. EnergyAustralia's view is consistent with the draft Garnaut report which stated that¹:

To date feed in tariffs have been implemented primarily on the basis of infant industry assistance... This is not a valid reason for support.

We contend that policy makers should consider providing direct and transparent assistance for emerging renewable technologies. For instance, direct grants for research and development may better promote the commercialisation and development of emerging technology. EnergyAustralia notes that the Federal Government has announced that it will create a \$500 million Renewable Energy Fund for the development, commercialisation and deployment of renewable energy in Australia. We consider this initiative is a more efficient mechanism than a feed in tariff to achieve the stated objective.

Administration of the feed in tariff scheme

EnergyAustralia has concerns that the proposed feed in tariff will be complex to administer. Under the scheme, a designated Minister will be responsible for determining the appropriate tariff rate for different technologies on an annual basis. EnergyAustralia contends that:

- It would be difficult for a Minister, or any rule making body, to determine the appropriate rate for a feed in tariff for a period of 20 years. This would require forecasts of participants, the energy provided by each participant and the annual costs for retailers. The Minister's Office or Department would require the appropriate expertise to forecast this information and it is likely that this will be accompanied by costly consulting services or the establishment of a new body to administer the scheme.
- There is an implied obligation within the scope of the scheme for the Minister to 'pick winners' by providing certain technologies with higher feed in tariff rates without regard to the cost effectiveness of the generation.
- A funding levy for a feed in tariff may lack transparency and accountability, making it difficult to administer within the overall framework of a CPRS.

Impacts on services provided by network

We note and support that the costs of funding a proposed feed in tariff scheme would not be borne by distribution networks. However, we contend that the feed in tariff scheme is likely to impact on the obligations of distributors and the services they provide. This includes:

¹ Garnaut, *Climate Change Review, Draft report*, Section 17.2.2.

- Adjustments to physical metering arrangements and significant changes to metering rules, services and obligations; and
- Potential safety and reliability issues for the network from the faulty installation of renewable technology.

In conclusion, EnergyAustralia considers that renewable generation policy should be focused on a cost effective and economy wide approach to reducing greenhouse emissions. We believe that a feed in tariff will result in higher prices for consumers compared to the MRET and an emissions trading scheme. Furthermore, we are concerned that the scheme creates market distortions that will be embedded in the Australian economy for more than 20 years.

EnergyAustralia submits that a market price for carbon under an emissions trading scheme is the most appropriate and cost effective way to reduce greenhouse gas and would ensure equitable treatment and incentives for a wide variety of renewable energy technologies. Further we believe that direct assistance to emerging technologies is the least distortionary way to ensure that Australia is able to select the cheapest form of renewable energy production from a wide variety of sources.

Should you have any questions in relation to this submission, please contact Ms Catherine O'Neill on (02) 9269 4171.

Yours sincerely



Geoff Lilliss
Executive General Manager - Network
EnergyAustralia