



11 October 2002

The Secretary
Senate Environment, Communications,
Information Technology and the Arts Committee
Parliament House
CANBERRA ACT 2600

e-mail: ecita.sen@aph.gov.au

Ref: R-02-199

Dear Sir or Madam

INQUIRY INTO THE RENEWABLE ENERGY (ELECTRICITY) AMENDMENT BILL 2002

We refer to the current inquiry into the Renewable Energy (Electricity) Amendment Bill 2002 ("the Amendment Bill") being conducted by the Senate Environment, Communications, Information Technology and the Arts Committee ("the Committee").

We ask that you accept the attached submission as Ergon Energy Pty Ltd's comments on the Amendment Bill and also in relation to other aspects of the Renewable Energy (Electricity) Act 2000 ("the Act") which may be under review during the Committee's inquiry.

As a general comment, Ergon Energy is concerned that the Amendment Bill has been referred to the Committee at this time. It is our view that the Amendment Bill covers largely administrative issues, yet its introduction to Parliament has triggered debate on a number of other aspects within the Act which are unaffected by the Amendment Bill. The Act requires that it undergo a major independent review, commencing in January 2003, the results of which must be reported to Parliament. The purpose of the review is to assess the effectiveness of the legislation in delivering greenhouse gas emission reductions, additional generation from renewable energy, the appropriateness of penalties etc. The review will be extremely comprehensive and will consider input from all sections of the electricity industry and broader community. It is our view therefore, that any changes imposed as a result of the inquiry (additional to those already contained in the tabled Amendment Bill) would create major regulatory risk and uncertainty in the renewables market. Such uncertainty has the potential to deter investment in new generation or impose additional costs upon the industry which would have to be recovered from customers.

Ergon Energy thanks the Committee for opportunity to provide comment to the inquiry and would welcome the opportunity to discuss the Amendment Bill and our submission with you at your convenience. Please do not hesitate to contact Ms Rebecca Myers on (07) 03228 8134.

Yours sincerely

Darren Barlow
Manager Regulation
Strategic Business Development

ERGON ENERGY



THE RENEWABLE ENERGY (ELECTRICITY)
AMENDMENT BILL 2002 - A SUBMISSION TO THE
SENATE ENVIRONMENT, COMMUNICATIONS,
INFORMATION TECHNOLOGY AND THE ARTS
COMMITTEE.

1.0 INTRODUCTION

We refer to the current inquiry into the Renewable Energy (Electricity) Amendment Bill 2002 ("the Amendment Bill") being conducted by the Senate Environment, Communications, Information Technology and the Arts Committee ("the Committee").

Ergon Energy Pty Ltd ("Ergon Energy") is a Queensland based electricity retailer, also operating in New South Wales, Victoria and the Australian Capital Territory. Ergon Energy is a supporter of the renewable energy legislation and believes that it is starting to generate strong growth in the renewable energy industry - a statement reflective of the number of renewable energy project developers who are active in the market and seeking financial backing for generation projects.

This submission provides comments upon the Amendment Bill and also in relation to other aspects of the Renewable Energy (Electricity) Act 2000 ("the Act") which may be under review during the Committee's inquiry.

2.0 GENERAL COMMENT

By way of general comment, the Renewable Energy (Electricity) Act 2000 ("the Act") is a relatively new piece of legislation, having commenced operation in April 2001, with the first and only compliance reporting event occurring in February 2002. At this time, it is therefore very difficult to evaluate the effectiveness of the Act given its infancy. It is Ergon Energy's view that any review at this time would be of limited value given the lack of historical data and limited time within which the scheme will have had an impact upon the renewable energy investment market. Further, we consider that any changes made to the Act at this time, risk being made in the absence of sufficient historical information to fully evaluate the impacts going forward.

3.0 DISCUSSION

3.1 Timing of the Inquiry

Section 162 of the Act requires that the Act be reviewed as soon as practicable after the second anniversary of its commencement. Realistically, this means the Act will undergo a review commencing in early 2003. The Act requires that the review consider a number of key elements of the legislation, including:

- a) the overall and interim targets;
- b) the appropriateness of the penalty; and
- c) technology mix,

in order to determine whether the Act has;

- a) contributed to the reduction of greenhouse gas emissions;
- b) encouraged additional generation of electricity from renewable energy sources; and
- c) achieved an appropriate mix of renewable technologies.

The independent review is to be undertaken by persons who the Minister considers possess appropriate qualifications, and the Minister must table a copy of the report in Parliament within 12 months of the second anniversary of the commencement of the Act.

In Ergon Energy's view, the legislated review will be extremely comprehensive, with views gathered from across the electricity industry and broader community, as well as incorporating information and analysis provided by economic and environmental consultants.

Given that such a major review is less than 3 months away, we consider that an inquiry conducted by the Committee within a timeframe of 6 weeks will not allow comprehensive coverage of the issues under debate. Specifically, we do not believe that there has been any balanced modelling undertaken to allow consideration of the impacts of the Act (or any proposed changes) from all view points. In this regard, we have concerns that making any changes to the Act prior to the full review in 2003 may introduce additional costs upon the electricity industry, which translates into higher electricity bills for business and residential customers.

3.2 Overall Target

Much debate has occurred about the suitability of the 9500 GWh/yr target which is to be achieved by 2010 and then maintained through to 2020. Many renewable energy project proponents have lobbied since the initial introduction of the Act to have this figure increased. Some seek to have the figure doubled and others seek even more significant increases. Whilst we recognise the environmental benefit of such positions, there is a considerable cost to consumers which also needs to be considered. For example, it has been estimated that by 2010, the Act will deliver 10.6% of all electricity requirements from renewable energy at a total additional (to black) incremental cost to customers of \$330 million per year. Increasing that percentage to 15% of the electricity supply in 2010 would increase that cost burden by a further \$390 million per year.¹

Depending upon what outputs the Government sees as most important from the scheme may also determine whether changes to the target are considered appropriate. For example, if the ultimate goal of the Government is to achieve greenhouse gas emission reductions, then limiting the achievement of those emission reduction to the renewable energy sector is inefficient. It is more efficient (including being less costly) to broaden the ways in which emission reductions can be achieved and rewarded by the electricity industry (e.g. carbon sequestration, energy efficiency etc), and also to broaden the scope of schemes to other segments of the market. For example, the imposition of specific and credible emission reduction targets upon electricity generators, or the transport industry.

3.3 Penalty Level

The question of whether the penalty is appropriate or not needs to be considered following the detailed analysis and modelling of electricity market cost structures. The question of what the penalty should be is also further complicated by any change to the overall or interim targets. On this basis, we do not believe the question of an appropriate penalty level can be considered thoroughly by the Committee within its given timeframe and the matter should therefore be handled through the legislated review in 2003.

¹ Electricity Supply Magazine September 2002, Electricity Supply Association of Australia.

3.4 Baselines

Baselines and their appropriateness is a further issue upon which the market has diverse views. Some parties have argued that baselines in relation to some generators have been set too low, or that generators need to be penalised if they do not reach their baseline in any individual year. Other parties have argued that such actions are likely to financially harm existing renewable energy generators preventing them from running. This would reduce the overall amount of underlying renewable energy generation in the market which certainly should not be an aim of the legislation. It may also lead to inflated and unnecessary compliance costs that would eventually be recovered from customers.

The impacts of any decision on baselines is critical to the operation and economics of the scheme and it is our view that any decision should only be made following the full review scheduled for 2003.

4.0 CONCLUSIONS

In summary, Ergon Energy is generally supportive of the Amendment Bill. However, we have some concerns about any premature review of the Act on the basis that the scheme is still in its infancy with only a single (part year) period reported upon to date.