Australian Democrats

Dissenting Report

The Australian Democrats disagree with the conclusion of the majority report that action on expanding the existing Mandatory Renewable Energy Target (MRET) and proceeding with an energy efficiency trading scheme is premature and must wait until after the establishment of an Emissions Trading Scheme (ETS), viz:

As the MRET scheme is strongly linked to the proposed ETS, it is premature to amend the renewable energy power percentages without having regard to the wider implications of any pre-ETS alterations.

MRET Policy as Industry Support

The report and the logic supporting the conclusion does not acknowledge the fact that the MRET scheme has been oversubscribed since 2006 nor the fact that the Howard Government's original policy objective of increasing the overall proportion of renewable energy in Australia's electricity generation effort by 2 per cent was not met. (This policy failure was due to the conversion of the target to a set number of GWh (9,500) that was based on a gross underestimation of growth in electricity demand.) Since MRET commenced the proportion of electricity generated by renewables has in fact dropped.

Other renewable energy policy initiatives have been insufficient to drive new investment in renewable energy and as a result, it has now stalled. This makes no sense when the task of reducing emissions is both urgent and substantial.

The report's conclusion does not recognise the significance of state based energy efficiency trading and renewable energy trading schemes and targets or the fact that they were initiated because of Federal government inaction in this area. Neither does it acknowledge requests from industry for national consistency.

The objective of this Bill is to bring forward to 2008 the start up of the Rudd Government's election commitment to expand the MRET target from 2010. We consider this to be necessary to avoid the further erosion of the renewable energy industry's capacity and ongoing viability.

Policy stability and therefore investment stability through a continued access to a renewable energy market is crucial for a robust and competitive renewable energy industry.

Interaction between MRET, Energy Efficiency and Emissions Trading Scheme

The committee considered the two separate but related bills together and examined their interaction with an ETS.

However, little evidence was advanced in support of the majority report conclusion that these measures cannot be adopted ahead of an ETS. Whilst some witnesses argued that this was the case, others said MRET and energy efficiency trading were complementary to an ETS but beyond its scope.

The Democrats consider the least cost path to reducing greenhouse emissions to be aggressive energy efficiency, a significant shift to renewable energy and strategic use of fossil fuel. The evidence presented to the inquiry supports this position.

In answer to questions, Professor Alan Pears explained:

Senator ALLISON—What has been said several times today is that you cannot embark on something like an energy efficiency trading system outside the process of emissions trading. Do you have a comment to make about that? Should we just wait until 2010, when we have got an overall program?

Prof. Pears—No, I completely disagree with that. Just as we ran MRET from 2001 without an emissions trading scheme, you could run an energy efficiency trading scheme completely separately from emissions trading. Or as a government or a parliament you could introduce the energy efficiency trading scheme and then, from 2010 or whatever, you could say that efficiency trading certificates interacted with the emissions trading scheme in these ways. So I do not see any problem at all. MRET is the example of running a scheme, and I think they are dealing with the issues of MRET and emissions trading.

Senator ALLISON—People talk about the necessity for them to be complementary. You have briefly gone into that. Maybe you could explore that a bit more for the committee.

Prof. Pears—The issue is that there will be some kind of threshold above which organisations participate in emissions trading. So a logical thing to me is to focus an energy efficiency trading scheme on the non-ETS sectors, which is really what, as I understand it, they are doing in the British scheme. The value of that is that the non-ETS sectors are essentially only seeing a flow-on price effect from emissions trading. So, for example, a power station or a large industry is actively engaged in emissions trading. They are seeing the costs and benefits of options and presumably making judgements. If I am an electricity consumer—a small to medium electricity consumer—what will happen is that my energy retailer will buy electricity from a power station and the power station will pass through some carbon price costs and then the retailer will pass those costs through to me, presumably with a profit margin, and then we might add in the GST as well—I do not know. So we are just going to see price effects on energy and on goods and services for the bulk of the economy and a large proportion of the emissions from the economy.

Senator ALLISON—Can I just interrupt there. So you are saying that from emissions trading all we will get as a driver for efficiency is a slightly increased cost for generation?

Prof. Pears—Exactly. We will see a small increase in energy costs or the energy component of goods and services that we buy. The evidence is that the scale of the price signals will not do very much to change people's behaviour. Some work in the US recently showed that in the residential and commercial sectors a doubling in energy prices might reduce energy consumption by 15 or 20 per cent. A doubling in electricity prices for those sectors would be equivalent to a carbon price of $150 or so a tonne. I do not think $150 a tonne is politically very viable for an emissions-trading scheme, but also $150 a tonne was giving you only a 20 per cent or so reduction. You were not even capturing anything like the full energy efficiency potential using that price signal to drive people's behaviour.

I presented a talk last week where I showed that the effect of an increase in petrol prices due to a carbon price of $25 a tonne would really be only a few dollars a week. When the cost for a new car buyer of running a car is in the hundreds of dollars a week, this is noise. If we want the non-emissions-trading sector to be actively engaged in energy efficiency, we need a more powerful program or strategy than just relying on the flow-on effects from emissions trading.

An ETS will result in only marginal investment in renewable energy and energy efficiency because it will change the relative costs of electricity generation based on greenhouse emissions intensity. Renewable energy will not be considered as an offset and must compete with other low emissions technologies such as gas.

MRET already exists and was introduced with the objectives of supporting growth in the emerging renewable energy industry as well as greenhouse abatement. The ETS will not be a replacement or substitute for MRET.

Cost Impacts

The preliminary modelling indicates that an ETS may result in a real increase in energy household bills of between $20 and $40 per annum on average over the 2010-20 period and between $30 and $55 per year over the 2021-30 period.

As wholesale prices increase, the competitiveness of renewable energy improves and the level of support required through MRET is reduced because the cost of the scheme is lower.

Taking action to improve the energy efficiency of the economy has the benefit of reducing energy demand and, therefore, offsetting the energy price rise due to MRET and the ETS. Professor Pears told the committee:

> ..there is almost universal agreement that we need a more effective driver to capture energy efficiency potential in Australia. There is such a powerful case that we are failing to capture the least cost solutions, not just for climate change but also to avoid unnecessary investment in energy supply infrastructure and so on. I guess that raises the point that energy efficiency is not just a climate change mitigation measure; it actually offers multiple benefits, such as avoiding unnecessary investment in energy supply capacity, improving productivity and facilitating innovation.

> In the context of emissions trading, ... for a given emissions trading cap, energy efficiency reduces the cost of meeting it. Essentially, if the cost of energy efficiency is lower than the price of the permit, then shifting more emphasis onto energy efficiency reduces the overall cost of emissions trading. At the same time, if we decided to include mechanisms in emissions trading schemes, then energy efficiency could gain some kinds of credits to actually tighten the emissions trading cap.

In other words, the total impact on energy price by combining ETS, EE and expanded MRET will be lower than the sum of the individual impacts. MRET will increase investment in renewable energy and energy efficiency will reduce demand and this will reduce the impacts of meeting the greenhouse caps under the emissions trading scheme.

The Democrats consider that not increasing MRET or failing to progress aggressive energy efficiency actions is neither strategic nor defensible. Combining the action on all three policy fronts as well as tax reform, is more appropriate in managing the cost impacts of restructuring our economy.

Broader Policy Context

The report's conclusion does not acknowledge the broader policy concept of reducing greenhouse emissions and preparing Australia for the deep cuts in greenhouse that will be required "post Kyoto".

The Government claimed, in its Tracking Kyoto Report, to be on target to meet its 108% of 1990 levels Kyoto target and attributes this improvement (on the previous government's 109% projection) as being due principally to the expansion of the Mandated Renewable Energy Target (to 20% by 2020). However, because the measure will not commence until 2010; just two years short of the end of the commitment period in 2012, the take up rate in these two years will need deliver 6,000 GWh of renewable energy to displace the 6 million tonnes of carbon emissions that must be avoided in order to meet the target.

The Democrats recommend the passage of these bills as soon as possible.

Senator Lyn Allison
Australian Democrats