# Chapter 1

# Introduction and conduct of the inquiry

## Conduct of the inquiry

1.1 The Senate referred the Renewable Energy (Electricity) Bill 2009 and the Renewable Energy (Electricity) (Charge) Bill 2009 to the Economics Legislation Committee on 18 June 2009 and required the committee to report by 12 August 2009.

1.2 The committee advertised the inquiry in the national press and invited written submissions by 24 July 2009. Details of the inquiry were placed on the committee's website and the committee also wrote to a number of organisations and stakeholder groups inviting written submissions. The 133 submissions received by the committee are listed in Appendix 1.

1.3 Three public hearings were held by the committee, in Perth on 2 July 2009 and in Canberra on 5 and 6 August 2009. A list of witnesses appearing before the committee at hearings is provided at Appendix 2.

1.4 The committee thanks all those who participated in this inquiry.

## The two bills

1.5 The bills implement the agreement on a Renewable Energy Target (RET) reached by the Council of Australian Governments (COAG) on 30 April 2009.[1] This agreement aims to have at least 20 per cent of Australian electricity supply coming from renewable sources by 2020. The RET forms a part of the government's strategy with the Carbon Pollution Reduction Scheme to transition Australia to a low carbon economy over time.

1.6 The RET will expand the current Mandatory Renewable Energy Target (MRET) and replace various existing and proposed state and territory schemes with one national scheme.

1.7 The RET continues many of the features of the current MRET scheme, such as eligible sources and the banking of renewable energy certificates to promote smoother investment over time.

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1 COAG meeting outcomes, 30 April 2009, http://www.coag.gov.au/coag_meeting_outcomes/2009-04-30/index.cfm, viewed 6 August 2009.

1.8 The Renewable Energy (Electricity) Amendment Bill 2009 amends the *Renewable Energy (Electricity) Act 2000* to increase the current target from 9,500 gigawatt-hours (GWh) to 45,000 GWh in 2020.

1.9 The Renewable Energy (Electricity) (Charge) Amendment Bill 2009 increases the shortfall charge under the Renewable Energy Target (RET) from $40 per megawatt-hour to $65 per megawatt-hour. The level of this penalty will be monitored to ensure it remains an effective incentive for investment in renewable energy.

## Background

1.10 This committee has identified in earlier reports the importance of a global response to the scientific evidence of climate change and the very high probability that it is being caused by human activity.[2] The Committee has also argued that it is appropriate that Australia plays its fair share in this global effort. As the Committee commented in an earlier report:

> Indeed, as one of the world's highest per capita emitters of greenhouse gases, one of the world's wealthiest countries, one of the major beneficiaries of past greenhouse gas emissions, one of the countries best endowed with renewable energy sources and one of the countries that would suffer most from further climate change, there is a strong case that Australia should be willing to make a more than proportionate contribution to this global effort.[3]

1.11 Australia can make an important contribution to lowering our emissions by making more use of renewable sources to generate electricity. Australia currently makes relatively high use of fossil fuels to generate electricity (Chart 1.1), and these account for over a third of Australia's emissions of greenhouse gases. This does not need to be the case. Australia is abundantly endowed with renewable energy resources:

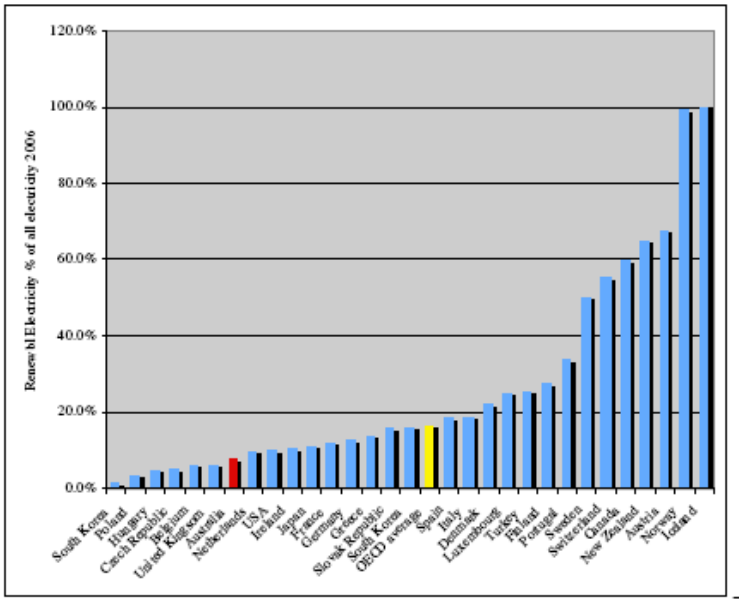
> If you think about Australian renewable energy assets, they are world class and deployed across the country. In the north, in Queensland, we have world-class solar assets. In the south we have roaring forties wind, geothermal assets dotted from the Cooper Basin all around the country, ocean and wave technologies available both with tidal technologies in far north-western Australia and the tidal currents and ocean currents all across the southern coast. We have hydro assets from the world's best hydro generation in Tasmania and the Snowy Mountains, as well as biomass and bio-energy in Queensland from the sugar industry and others emerging in that technology. However you look at it, it is a clean energy Disneyland in

2 See Chapter 6 of the Committee's report *Carbon Pollution Reduction Scheme Bill 2009 and related bills*, June 2009.

3 Senate Standing Committee on Economics, *Exposure draft of the legislation to implement the Carbon Pollution Reduction Scheme*, April 2009, p 1.

> Australia with both the competitive energy market and the full array of these renewable resources… Australia is one of maybe three or four countries in the world that has genuine potential to power itself virtually entirely from renewables: Brazil, maybe Iceland, possibly New Zealand and Australia—simply because of its relative population size, the size of the country and the location it has got. It is just blessed with everything and we are going to be the lucky country yet again.[4]

**Chart 1.1: Electricity generated by renewable energy (% of total)**




Source: Greg Buckman, *Submission 21*, p 6; based on data from International Energy Agency, 2009.

1.12 The first policy initiative to increase usage of renewable energy was the Mandatory Renewable Energy Target (MRET) established by legislation in 2000 and regulations in 2001 by the Howard Government. When it foreshadowed the introduction of the MRET, in 1997, as a response to climate change, the rationale was given as:

> This will accelerate the uptake of renewable energy in grid-based power applications and provide an ongoing base for commercially competitive renewable energy. The program will also contribute to the development of internationally competitive industries which could participate effectively in the burgeoning Asian energy market.[5]

1.13 The MRET was reviewed in the Tampling Report in 2003 to which the then government responded in its 2004 Energy White Paper.

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4 Mr Matthew Warren, Chief Executive Officer, Clean Energy Council, *Proof Committee Hansard*, 5 August 2009, pp 70 and 72.

5 Hon John Howard, cited in Parliamentary Library, *Bills Digest*.

1.14 At the 2007 election most parties made commitments to increased renewable/low emissions electricity targets for 2020; being 15 per cent in the case of the Liberal/National and Family First parties, 20 per cent for Labor and 25 per cent for the Greens.[6] In 2008 COAG released two discussion papers on the RET and the Government released draft exposure legislation. In January 2009, the Government released a technical report by Walter Gerardi of McLennan Magasanik Associates.

1.15 After discussion at COAG, and as the Government developed its Carbon Pollution Reduction Scheme (CPRS) proposals, a further exposure draft of the RET legislation, essentially the same as the current bill, was issued in June 2009, incorporating assistance for what are sometimes termed 'RET-affected trade-exposed' (RATE) industries.

## How the scheme works

1.16 The RET scheme will operate in a similar manner to the existing MRET, if on a larger scale.

1.17 The MRET operates through the trade in renewable energy certificates (RECs). One REC represents one megawatt-hour of electricity. RECS are generated by eligible renewable energy sources.

1.18 Wholesale purchasers of electricity are required to meet a share of the RET in proportion to their share of the national wholesale electricity market. They do this by buying the requisite RECs and surrendering them to the Renewable Energy Regulator, or paying the shortfall charge.

1.19 The RET scheme will be administered by the Office of the Renewable Energy Regulator (ORER), the statutory authority which currently administers MRET. However, under the provisions of the Australian Climate Change Regulatory Authority Bill 2009 and the Carbon Pollution Reduction Scheme (Consequential Amendments Bill) 2009, responsibility for administration of the RET will be transferred to the Australian Climate Change Regulatory Authority if those bills are passed.

1.20 The RET will cost $2.2 million to modify and expand the capacity of the REC online register and around $3 million a year in ongoing administrative costs.

1.21 There are provisions for a review, by an appropriately qualified person, of the RET scheme in 2014 to coincide with the proposed strategic review of the CPRS.

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6 Parliamentary Library, http://www.aph.gov.au/library/pubs/ClimateChange/governance/domestic/national/party.htm (accessed 8 August 2009).

## Structure of the report

1.22 Structural aspects of the RET, such as the target and coverage are discussed in Chapter 2. Employment opportunities and the consequences of a delay in the passage of the legislation are discussed in Chapter 3. The operation of the RET within the context of an emissions trading scheme, notably its role in developing renewable energy industries, is the subject of Chapter 4.
Chapter 5 provides a discussion of different attempts to model the costs of the RET. Chapter 6 deals with assistance to electricity users affected by the RET.