Additional comments by Coalition Senators

Background

The legislation

The *Renewable Energy (Electricity) Amendment Bill 2009* (the Bill) seeks to establish an expanded Renewable Energy Target (RET) by building on legislation introduced by the Coalition Government in 2000 that established the Mandatory Renewable Energy Target (MRET).

Schedule 1 of the Bill replaces the existing MRET of 9,500 gigawatt-hours (GWh) with an expanded schedule of targets leading to 45,000 GWh in 2020. In conjunction with the 15,000 GWh of installed renewable generation capacity that existed prior to introduction of MRET, the expanded RET will lead to 20 per cent of Australia's electricity being sourced from renewables by 2020.

The *Renewable Energy (Electricity) (Charge) Amendment Bill 2009* (the charge Bill) seeks to increase the shortfall penalty under the RET from its current level of $40 per MWh to $65 per MWh.

The Coalition's record on renewable energy

The Coalition acted decisively in Government to provide the legal framework and commercial incentives required by the renewables and waste energy sectors to invest in the development and deployment of new energy technologies that will sustain and secure Australia's electricity supply into the future.

In Government, the Coalition passed legislation in 2000 establishing the MRET scheme giving effect to commitments made by the then Prime Minister John Howard in November 1997.[1] MRET was the first scheme of its kind globally and has been a key factor in the growth of renewable and waste energy electricity generation in Australia.

Since commencement in April 2001, the ORER estimates MRET has encouraged investment in generation capacity of approximately $5 billion and annual eligible generation capability in the order of 9,000 GWh per year.[2]

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1 John Howard, *Safeguarding the Future: Australia's response to Climate Change*, 20 November 1997.

2 Office of the Renewable Energy Regulator, Fact Sheet: *MRET the basics*, April 2009.

In September 2007, Prime Minister Howard announced a 15 per cent Clean Energy Target (CET) to build upon the gains achieved under the Coalition Government.[3] The measure built upon the success of MRET and provided additional commitments from the Coalition to encourage further investment in renewable and low emissions technologies.

The Coalition Government provided further targeted support to renewables, particularly solar photovoltaics (PV), through the Photovoltaic Rebate Program (PVRP; later renamed the Solar Homes and Communities Plan) and the Renewable Remote Power Generation Program (RRPGP).

The PVRP was announced in May 1999 as part of the *Measures for a Better Environment Package* and began providing rebates on solar PV systems to households, schools and communities from 1 January 2000. The Coalition committed extension funding for the program twice, with an additional $150 million dollars provided in the 2007-08 Budget to extend the scheme for a further five years and provide for increased household PV rebates of up to $8,000 and schools and community grants of up to $12,000.

The RRPGP was also announced in May 1999 and provided 50 per cent rebates for the installation of renewable energy systems to off-grid households, communities, businesses, governments and other organisations that were otherwise reliant on diesel fuel for electricity generation. In August 2006 Prime Minister Howard committed additional funding of $123.5 million over four years to expand and extend the RRPGP from 1 July 2007.[4]

The Coalition has a strong record of providing support to the renewables and clean energy sectors. In Government, the Coalition acted conscientiously to discharge its responsibilities in providing support and certainty for businesses in the renewables sector. This, regrettably, is a stark contrast to the record of the Labor Government on renewables which has been irreparably blemished by political brinkmanship and the desperate state of Commonwealth finances.

Labor's record on renewable energy

In just over 18 months Labor has created wide-spread upheaval and anxiety within the renewables sector. Among other floundering election commitments, support for renewables has fallen casualty to Labor's mismanagement of the nation's finances.

The solar industry in particular has suffered at the hands of the Rudd Government.

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3 John Howard, 'A National Clean Energy Target', *Media Release*, 23 September 2007.

4 John Howard, *Ministerial Statement to Parliament on Energy Initiatives*, 14 August 2006.

The first assault was delivered in the 2008-09 Budget when the $8,000 rebate for solar PV installations was removed for thousands of Australian families. The surprise announcement of a combined household means test of $100,000 left the solar industry in disarray. Following the announcement the industry estimated Labor's razor-gang cost solar businesses at least $300 million.[5]

On 9 June 2009 household solar PV rebates were scrapped altogether with less than one day's notice, leaving the solar industry again in disarray. Businesses were forced to scramble to warn customers they had only a few hours to get applications in before the $8,000 rebate closed.

The replacement rebate provided through the Solar Credits multiplier provides uncertain and potentially less support as the level of the rebate depends on the price of RECs and also the location of installation. Based on a $50 REC price, solar PV systems installed in Sydney, Perth, Adelaide, Brisbane or Canberra can expect to receive up to $7,750 while systems installed in cloudier Melbourne or Hobart can only expect up to $6,650.[6] The Committee was advised in evidence by the Clean Energy Council that the REC price has fallen in recent times to $37 therefore reducing by almost one-third the potential value of the rebate.[7]

Labor promised the solar PV industry a smooth transition from what was left of the Coalition's $8,000 rebate to Solar Credits but at the time had not even undertaken to introduce the legislation to Parliament. When finally introduced on 17 June, solar businesses were pushed to panic alarm with the consequences of Labor's brinkmanship inevitably unfolding. The decision to link crucial industry trade assistance measures under RET to passage of its flawed and friendless CPRS had inevitable consequences. Labor's approach was to take its own legislation hostage and put the renewables sector in the objectionable position of political ransom.

Mr Matthew Warren, CEO of the Clean Energy Council, said in a statement prior to the legislation being introduced:

> Any political tricky manoeuvre to hold the legislation up now will simply end up being a remarkable own goal.[8]

In giving evidence before the Committee Mr Warren made the following comments on how events subsequently unfolded:

> A draft RET Bill was produced in December 2008, and the Bill finally entered the Parliament in June 2009. It was deferred by the Senate a few

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5 Olga Galacho, 'No talks on solar rebate test', *Herald Sun*, 30 May 2008.

6 Department of Climate Change, *Solar Credits: Frequently Asked Questions*, June 2009.

7 Matthew Warren, Chief Executive Officer, Clean Energy Council, *Proof Committee Hansard*, 5 August 2009, p. 74.

8 Matthew Warren, '28,000 Australians waiting for a new clean job', *Media release*, 16 June 2009.

> days later. This delay is not costless. The Clean Energy Council conservatively estimates that it is costing the emerging clean energy industry more than $2 million a week. The price of renewable energy certificates fell sharply immediately following the Senate's deferral of the Bill. Orders for solar PV have evaporated, and staff are now being laid off or are idle in clean energy companies across an industry which is supposed to be gearing up to deliver 20 per cent of Australia's electricity in 11 years time.[9]

A third blow to the renewables sector in as many weeks occurred when the RRPGP was prematurely and without notice abolished on 22 June 2009 – this time, leaving solar businesses with no opportunity to push eleventh hour applications. Solar businesses received notification at 8.33am that the program had been abolished three minutes earlier. Extension funding committed by the Coalition in 2006 was to keep the program running until 30 June 2011. However, as the Clean Energy Council acknowledged after the event, the future of the program appeared threatened ever since funding was cut by $42 million in the 2007-08 Budget.[10]

The Solar Shop described the Government's actions like this:

> This is the third set back for the industry in as many weeks. We were promised a smooth transition from the $8k rebate to the new Solar Credits scheme and instead the old rebate was pulled early with only hours of notice. The Government then fiddled with the Renewable Energy Target policy, making what was a policy with bipartisan support to an un-winnable piece of legislation, and now they have retrospectively pulled the RRPGP which was a very popular and important program.[11]

In giving evidence before the Committee, Ms Andrea Gaffney from BP Solar commented:

> Since the termination of both those programs [PVRP and RRPGP], sales in both the grid and the off-grid market have dramatically reduced and many of our customers have indicated that they will be forced to lay off workers if the renewable energy target legislation is not introduced before October. If this occurs, investment triggered in the last 18 months to meet the significant upsurge in demand will be placed at significant risk.[12]

Coalition Senators wish to express our dismay at the Rudd Government's undermining of the significant gains in the renewables sector secured under the Coalition Government.

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9 Matthew Warren, Chief Executive Officer, Clean Energy Council, *Proof Committee Hansard,* 5 August 2009, p. 67.

10 Adam Morton, 'Canberra deals third blow to solar industry', *The Age*, 23 June 2009.

11 Solar Shop, *Media Release*, June 2009.

12 Andrea Gaffney, Government Relations Manager, BP Solar, *Proof Committee Hansard,* 6 August 2009, p. 51.

Decoupling and assistance for trade-exposed industry

Decoupling RET from the CPRS has been overwhelmingly supported by submission and evidence to the Committee.[13]

Assistance for trade-exposed industries in the form of exemptions from liabilities under RET is linked to passage of the Carbon Pollution Reduction Scheme Bill 2009 and commencement of the Act. The Coalition will move to give RET the best possible chance of passage through the Parliament by decoupling the Bills.

The issue of decoupling is not however a simple technical amendment.

Trade competitiveness and carbon leakage is at the centre of controversy between Labor, Australia's industry and the Coalition. The debate is not merely a media headline. There are serious flaws in Labor's climate policies that have the potential for large industry closures and job losses. And there will be no bitter-sweet. The costs of exporting Australian production offshore will not come with a global environmental benefit. Industry has been waving the warning flags for months but the public continues to be duped. As has been its approach to many other matters of important public interest, the Rudd Government has been brazen in its dealings with industry and scathing in its assessment of unaccommodating claims. But the charade is beginning to crumble.

Both the Queensland and Victorian Premiers have expressed direct concern to the Government over its flawed CPRS and have recently been joined by the New South Wales Treasurer and Federal Member for Throsby in a growing disquiet among Labor ranks.

In the context of uncertain and possibly incoherent international actions on climate change, the Prime Minister has failed to act to address legitimate concerns of job losses, trade competitiveness and carbon leakage. This applies equally in the case of RET as it does to the CPRS. The failures, if left unaddressed in the Senate, will lead to the loss of sustaining investment in Australia's world-class mining, manufacturing and

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13 BP Solar, *Submission 63*, p 7; Australian Industry Group, *Submission 64*, p 4; Kyocera Solar, *Submission 105*, p 1.; Tomago Aluminium, *Submission 10*, p 1; Business Council of Australia, *Submission 122*, p 8; Bureau of Steel Manufacturers of Australia, *Submission 17*, p 2; AGL Energy, *Submission 39*, p 2; CSR, *Submission 47*, p 3; Origin Energy, *Submission 53*, p 2; Clean Energy Council, *Submission 112*, p 2; Greenpeace Australia, *Submission 43*, p 3; p 53; Mr Michael Hitchens, Chief Executive Officer, Australian Industry Greenhouse Network, *Proof Committee Hansard*, 5 August 2009, p 43; Professor Ray Wills, CEO, Western Australian Sustainable Energy Association, *Committee Hansard*, 2 July 2009, p 2; Mr Dominic Nolan, Chief Executive Officer, Australian Sugar Milling Council, *Proof Committee Hansard*, 6 August 2009, p 41; Ms Andrea Gaffney, BP Solar, *Proof Committee Hansard*, 6 August 2009, p 53; and a number of other renewable energy producers at their roundtable, *Proof Committee Hansard*, 6 August 2009.

agricultural industries and the export of our greenhouse gases to higher emitting nations.

The RET provides for a materially significant expansion in the mandated use of renewable and waste energy-sourced electricity. It will provide additional support for the development of new and emerging industries in Australia. It is appropriate to consider the expanded RET as an industry development measure. However, even on such interpretation, the policy remains inextricably linked to greenhouse gas reductions and therefore bound to the objectives of climate policy. To cast aside legitimate concerns of trade competitiveness and carbon leakage on the basis that RET is an industry development measure, as has been argued by some, is misguided and misleading.

The Victorian and (proposed) New South Wales schemes provide precedence for recognition of the potential for carbon leakage as a result of the imposition of renewable energy mandates. Both schemes have provided in their design, stand-alone protections to maintain trade competitiveness and guard against the export of Australia's greenhouse gases. Under the Victorian scheme, exemptions from liability have been granted for electricity purchases relating to Victoria's aluminium smelters. Under the proposed NSW scheme the Energy Minister can designate exemptions at his or her discretion, with draft documentation indicating that the aluminium, pulp and paper and chemicals industries would be considered in this context.[14]

Results from the Treasury's modelling of the CPRS show that the average cost of reducing greenhouse gases under the expanded RET is around three times more than the cost of reducing greenhouse gases under the CPRS.[15] Coalition Senators have indicated further support for the clean energy sector and will stand by those commitments. In recognition of the implicit costs of RET, the importance of our world-class industries and of the imperative to ensure Australian greenhouse gas reductions contribute to global reductions, the Coalition will move to secure appropriate and stand alone trade-neutrality assistance under RET.

Coalition Senators believe it is imprudent in advance of global agreement and strong multilateral action on climate change for Australia's domestic climate policies to pre-emptively dislocate our industrial base. Labor's campaign against Australia's 'big polluters' is a political con that will damage our trade advantages and do little to prepare the nation for future carbon constraints. It is likely that many existing industries – industries in which Australia has significant capital invested – will remain vital to national and international development, even in a carbon-constrained world.

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14 COAG, Discussion Paper: *Treatment of electricity-intensive trade-exposed industries under the expanded national Renewable Energy Target scheme*, December 2008, p.6.

15 Treasury, *Australia's Low Pollution Future,* October 2008, p.181.

The aluminium industry

The Bill provides eligibility for aluminium smelting to receive a 90 per cent exemption from liabilities that relate to the expansion of the schedule of targets under RET. Exemptions from liability do not apply to: the 9,500 GWh target embedded in the existing MRET legislation; the extension of this target for an additional 10 years; or to potentially higher REC prices provided under the charge Bill. No exemptions from liabilities under the RET are provided in the period before the CPRS commences.

In its submission to the Committee, the Australian Aluminium Council (AAC) made the following comments:

> The expanded Renewable Energy Target will impose further additional costs on the aluminium industry in the same manner as much of the CPRS – through increased electricity costs. It addresses similar environmental objectives, operates over similarly long timeframes, and, like the CPRS, is a cost that will only be imposed on Australian producers, not competitors.
>
> In addition to increasing the target for generation of electricity from renewable energy sources, the expanded RET scheme will extend the period of the existing MRET scheme by a further 10 years and significantly increase the cost of Renewable Energy Certificates (RECs) by increasing the shortfall charge from $57 / MWh to $93 / MWh (tax adjusted), in effect doubling existing costs. The RET Bill in its current form does not provide any exemptions from these additional liabilities linked to the original MRET scheme, meaning the proposed 90% exemption level for EITE industries (applied only to the increased liability above MRET) actually results in a 55% exemption from overall scheme liabilities.
>
> The Bill in its current form:
>
> • will cost the Australian aluminium industry an additional $700 million over the first decade of the scheme - costs that will not be paid by producers in other countries. This is in the context of a total combined cost of the proposed RET and CPRS of approximately $4.0 billion over the first ten years. This is a cost, per-site, per-year, of tens of millions of dollars – imposed only on Australian producers.
>
> • will force most smelters to reduce their workforce and wind back capital expenditure. Each of Australia's aluminium smelters spend in the order of $50 million annually on sustaining capital. Faced with additional RET costs, much of this local spend on regional employment, equipment and supplies will evaporate.[16]

In giving evidence to the Committee, aluminium industry stakeholders made the following statements on costs, profitability and competitiveness:

16 Australian Aluminium Council, *Submission 62*, pp. 1, 7-8.

Rio Tinto Alcan: Dr Xiaoling Liu, President, Primary Metals, Pacific

> Rio Tinto Alcan operates 23 smelters globally. All these smelters sell on to the global aluminium market, and therefore additional regulatory costs in Australia cannot be passed through. Australian smelters compete within Rio Tinto for access to sustaining capital, funds which in the current environment are particularly hard to secure. Australia's smelters have predominantly been in the second quartile on the cost curve—that means below global average cost—and have been well positioned to attract investment. The total cost of climate policy will push Australian smelters into the third and potentially the fourth quartile, where it would be difficult to attract investment to improve operational efficiency and remain competitive, which will inevitably lead to the path of curtailment and even to closure. Early last year, we were fortunate enough to attract $685 million for significant upgrades at our Boyne smelter in Gladstone. This will not expand production but simply replace some cranes, a carbon baking furnace and provide for some major structural repairs.
>
> This type of investment is required periodically in all smelters to maintain their operational efficiency and asset integrity. In my opinion, unless there are changes to Australia's climate change policy, including this legislation, we will not be able to attract that kind of sustaining capital in the future. The impact will be inevitable, predictable and commercially rational over time. It would be regional communities like Gladstone which will ultimately bear the brunt of this legislation.[17]

Tomago Aluminium: Mr Roy Gellweiler, Chief Financial Officer.

> In our submission we outlined our main concern, which is the combined effects of both the CPRS and the RET for our company—$125 million per year by 2020. It is easy to throw numbers around, but I will put that in context. That is equivalent to our current wages bill, which is around $110 million per year. The cost to us would be the same as if we were actually having to double our 1,200-strong workforce. The current proposal for both the CPRS and RET, as proposed today, would push us up on the world cost curve by a full quartile. Currently we are sitting in the upper end of the first quartile and it would push us to the mid-point. It would jeopardise future investment in the plant. We are not talking about starting to jeopardise investment in 10 years time; we are talking about investment in the coming years, because it is an industry that is very capital intensive with very long-life assets.[18]

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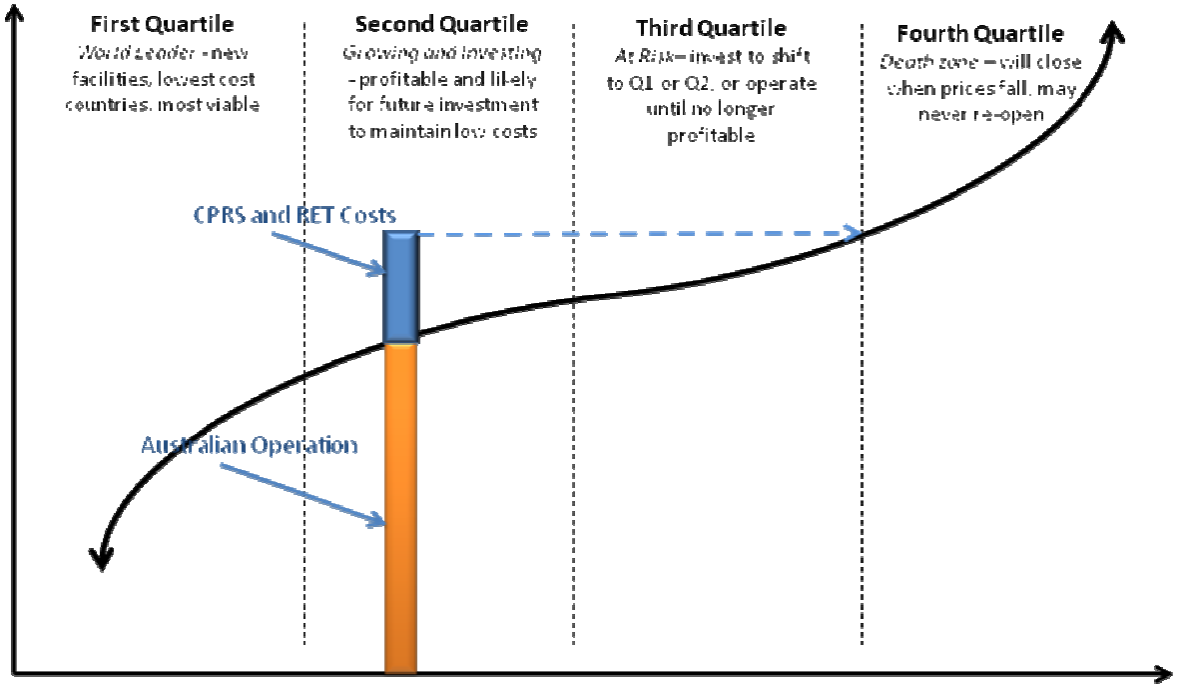
17 Ms Xiaoling Liu, President, Primary Metals, Pacific, Rio Tinto Alcan, *Proof Committee Hansard*, 6 August 2009, p. 12.

18 Mr Roy Gellweiler, Chief Financial Officer, Tomago Aluminium, *Proof Committee Hansard*, 6 August 2009, p. 14.

Hydro Aluminium: Mr Trevor Coombe, Head, Global Alumina and Smelter Growth, Oceania

> I am really more concerned about slide 5, which highlights the true value of the CPRS and RET on our operation…the costs by 2020…for these two environmental legislations is about $55 million. Our operation has an average profit of $65 million. So you can see that the impact is quite dramatic.[19]

The AAC provided the following graphical illustration of the impact of the CPRS and RET on the cost curve of Australian aluminium operations, showing the resultant loss in profitability, viability and investment.



Source: Australian Aluminium Council, *Submission 62*, p 6.

In a future scenario of coordinated global action on climate change it is possible that aluminium will play an increasingly important role as Mr Alan Cransberg, Managing Director of Alcoa, explains:

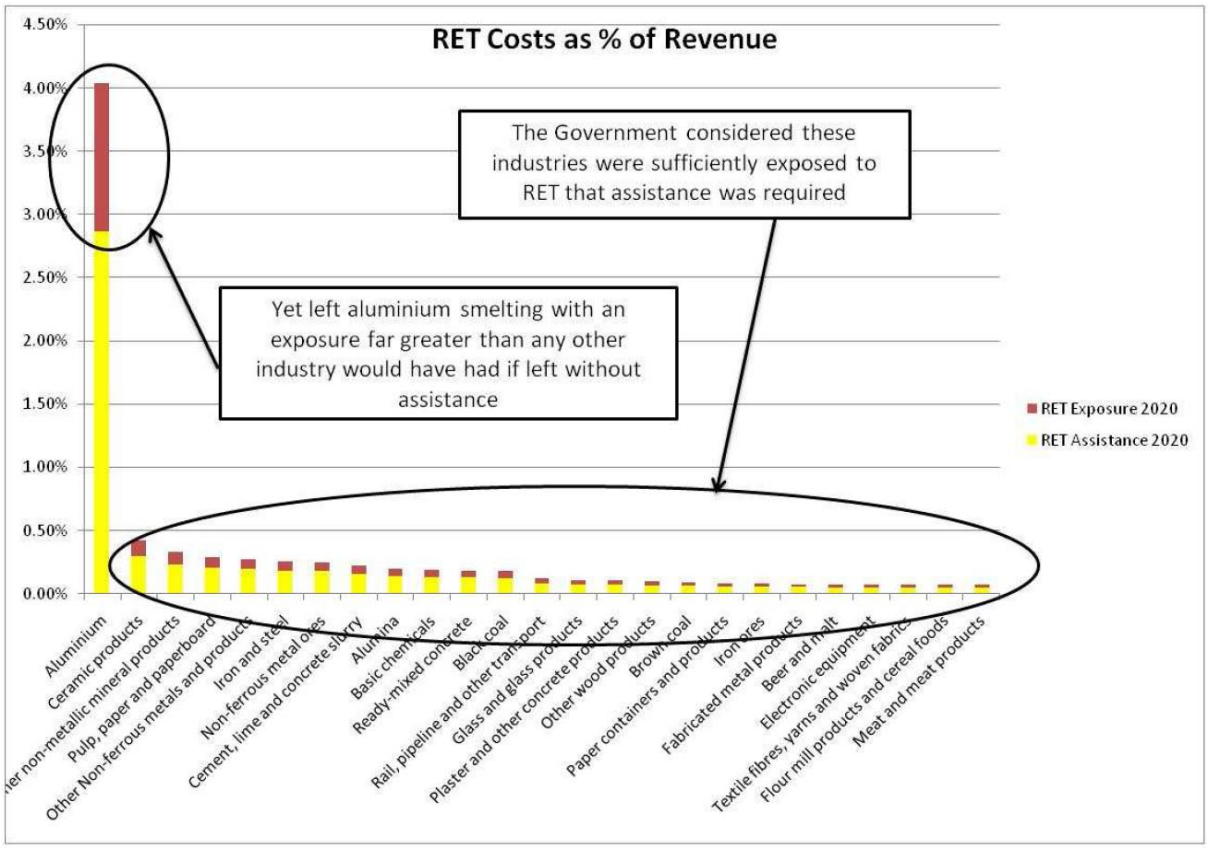
> The use of aluminium will be very important as we become more and more carbon-constrained. It is an extremely important material for future fuel efficient transport systems and is being increasingly used in cars to lightweight them while maintaining performance through its properties and its safety at low weight, therefore saving fuel. It is equally important in other mass transport systems and aircraft manufacture. I will give you an

19 Trevor Coombe, Head, Global Alumina and Smelter Growth, Oceania, Hydro Aluminium, *Proof Committee Hansard*, 6 August 2009, p. 14.

> example. If you replace two kilograms of steel with one kilogram of aluminium in a car, you save about 20 kilograms of CO2 over the life of that car. The realities for all of us is that this is a product that is endlessly recyclable. Seventy-five per cent of the aluminium ever used is still in circulation today and the next time you use it, you use about five per cent of the energy initially used in making that aluminium.[20]

By virtue of its manufacture, aluminium has become colloquially known as the commodity of congealed electricity. In terms of cost exposure to RET, aluminium smelting stands quite apart from other industrial processes. On this point Mr Cransberg from Alcoa made the following comment to the Committee:

> Australia is home to six aluminium smelters. We are the key electricity using industry in this debate. We are by far the biggest user of electricity within Australia, and the department's own analysis shows that aluminium smelting is an order of magnitude more electricity intensive than any other activity. If you look at the last page of our submission you can see that that is starkly portrayed by the graph there.[21]



Source: Australian Aluminium Council, *Submission 62*, p 12.

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20 Alan Cransberg, Managing Director, Alcoa of Australia, *Proof Committee Hansard*, 6 August 2009, p. 11.

21 Alan Cransberg, Managing Director, Alcoa of Australia, *Proof Committee Hansard*, 6 August 2009, p. 12.

On consideration of evidence presented before the Committee, Coalition Senators view the risks of shifting Australia's world class aluminium production facilities into an untenable investment position is too great. Coalition Senators support the provision of a full 90 per cent exemption for aluminium smelting from RET and MRET liabilities. This could be achieved by legislative recognition of highly electricity-intensive trade-exposed activities as suggested by the AAC.

Coalition Senators note strong support for a full 90 per cent exclusion of aluminium smelting from the Gladstone Regional Council,[22] the Gladstone Engineering Alliance[23] and the Gladstone Industry Leadership Group.[24]

Other emissions-intensive trade-exposed industries

Coalition Senators support the provision of stand-alone exemptions from liabilities associated with the expanded schedule of targets under RET for emissions-intensive trade exposed activities.

Many of Australia's trade advantages have been built on the basis of secure and cheap supplies of fossil energy. This is the context from which we come and of which we take to global negotiations on climate change. Moving away from our traditional supply of energy is acknowledged to be much more costly for Australia than for other economies. Therefore, it is a false assessment to simply brush aside trade competitiveness issues on the observation that other countries use larger percentages of renewable energy than Australia or have RET schemes in place.

Excluded emissions-intensive trade-exposed industries

Coalition Senators note that no progress has been made on considering the situation of agricultural processing facilities operating upstream from potentially eligible emissions-intensive trade-exposed agricultural activities under the CPRS. In giving evidence to the Committee, Mr Robert Poole, Government Relations Manager of Murray Goulburn Co-operative, commented that several approaches had been made to Minister Wong's office requesting a meeting to discuss the dairy industry's issues regarding non-eligibility for trade assistance under the CPRS. No response to their request has yet been received.[25] Given coupling of the legislation, these concerns are as equally applicable to consideration of exemptions under RET.

Murray Goulburn estimates its annual liabilities under the CPRS will result in average income losses to its 2,500 farming members in the initial years of the scheme of between $5,000 and $10,000. The pass-through of RET liabilities is estimated to

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22 Gladstone Regional Council, *Submission 46*.

23 Gladstone Engineering Alliance Inc, *Submission 3*.

24 Gladstone Industry Leadership Group, *Submission 89*.

25 Robert Poole, Government Relations Manager, Murray Goulburn Co-operative, *Proof Committee Hansard*, 6 August 2009, p. 7.

impose an additional $1 million cost in the first year of the scheme, rising to over $2 million by 2020. Prices for dairy commodities are set on international markets and there is no accommodation in prices for additional costs imposed on Australian producers. Increased costs on agriculture processing will inevitably be passed back to Australian farmers.

Mr Poole made the following statement to the Committee on international market conditions for dairy commodities:

> Over half [of our product] goes overseas, but of those products we sell in Australia—powders, cheeses, butters—all are freely imported. For example, from New Zealand there are no import restrictions, so the price of cheese in Australia is still established by, essentially, a world market price. We cannot just price cheese however we would want to; otherwise, we would lose market share to the New Zealanders and anyone else who wanted to bring cheese into Australia—the US, for example.
>
> We have tried to be a profitable and successful business, which we have been for many years, but we are already fighting a lot of distortions, as you know, Senator, with subsidies around the world and lack of market access. For example, we cannot get access, generally speaking, to Europe at all. European dairy products at least have some capacity to pass costs through because they are not exposed to imports.[26]

In relation to eligibility to the emissions-intensive trade-exposed program Mr Poole said:

> We would easily pass any trade exposure test that you can see around the world. Really where we have been caught is on the emissions intensity test because our most intensive products— powders—are about 600 to 700 tonnes of carbon per $1 million of revenue. We fall a fair way short on an emission intensity test. Because of the way that the dairy industry is structured, the costs go back to the farmer. There are about 8,000 dairy farmers in Australia now and they are going to pay all of the costs. It is a very narrow focus in terms of where all the costs ultimately lie.[27]

Coalition Senators are sympathetic to the concerns of the dairy processors and other agricultural industries that face immediate income losses as a result of Labor's climate policies imposing costs on processing. Increased production costs can not be passed through and will simply be passed backwards to farming families. This will reduce the viability of Australian farming, lead to the loss of domestic industry and undermine global food security. The Rudd Government must come to the table in good faith and

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26 Robert Poole, Government Relations Manager, Murray Goulburn Co-operative, *Proof Committee Hansard*, 6 August 2009, pp. 5-6.

27 Robert Poole, Government Relations Manager, Murray Goulburn Co-operative, *Proof Committee Hansard*, 6 August 2009, p 4.

discuss the critical problems agricultural manufacturers have been flagging since late last year.

Design features of the renewable energy target

Eligibility of waste gas power generation

Submissions have been received from a number of organisations[28] supporting expansion of the eligibility of renewable energy sources to include electricity sourced from waste coal mine gases (WCMG) and waste industrial gases.

MRET provides precedence for the inclusion of waste gas generation as an eligible renewable energy source. Section 17 of the *Renewable Energy (Electricity) Act 2000* provides eligibility for landfill and sewage gas thereby allowing the creation of RECs and providing support for the development of these industries and to reduce greenhouse gases.

The WCMG industry faces particular issues. Similarly to the renewables sector, it has been left in a precarious state by Labor's approach on climate change. Currently, WCMG generators are reliant on the NSW Greenhouse Gas Abatement Scheme (GGAS) for income to sustain their operations. The NSW Government has indicated that this scheme will be prematurely wound up, coinciding with the introduction of the CPRS.

Mr Blair Comley, Deputy Secretary of the Department of Climate Change, made the following comments to the Committee:

> Formally, Senator, there is only one renewable energy target scheme in the states, which is the Victorian scheme, and that will effectively be abolished and transitioned into the national scheme. There is not a formal link between the GGAS scheme and the renewable energy target. The GGAS scheme is intended to be wound up as well. It is the view of the New South Wales government that they will wind up that scheme. Both the GGAS and the Victorian renewable energy target scheme will cease and leave the national renewable energy target as the remaining scheme.[29]

Labor has failed to provide any certainty for the WCMG sector. Transitional arrangements from GGAS have not been confirmed or committed. This is threatening jobs and investment in an industry that is actively contributing to greenhouse gas reductions and providing Australia with a secure supply of base-load electricity. It is

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28 Business Council of Australia, *Submission 122*; Australian Industry Greenhouse Network, *Submission 59*; GE Energy Australia, *Submission 86*; Envirogen, Clark Energy and Energy Developments, Joint Submission (confidential), Bureau of Steel Manufacturers of Australia, *Submission 17*.

29 Blair Comley, Deputy Secretary, Department of Climate Change, *Proof Committee Hansard*, 5 August 2009, p. 15.

alarming and unacceptable that two Labor governments have conspired to remove support for the WCMG industry without any security of support into the future.

The Queensland Government shares the view of Coalition Senators. In a letter to Minister Combet dated 9 July 2009, Queensland Premier Anna Bligh made the following representation to the Rudd Government:

> As you would be aware, electricity generation using waste coal mine gas (WCMG) is already providing an efficient and effective means of abating methane from some coal mines. In the medium term, the CPRS is likely to improve the competitiveness of this type of electricity generation relative to more conventional generation sources due to its lower emissions profile. However, in the transition phase to the CPRS, existing investments in the form of generation face an uncertain future given the future abolition of the New South Wales Greenhouse Gas Abatement Scheme (GGAS) upon commencement of the CPRS.
>
> This action will remove a significant incentive that helped underwrite job creating and methane abating projects which currently exist in Queensland – and there is potential to develop more projects of this kind.
>
> As a consequence, existing WCMG projects that are delivering lower emission electricity are at risk of closure with the potential for hundreds of jobs to be lost. Clearly this would be a most perverse outcome. As I indicated to you in my letter of 23 June 2009, the Queensland Government considers that there is a strong case for the Commonwealth to provide adequate transitional assistance to this sector.

Coalition Senators agree and strongly support inclusion of WCMG as an eligible renewable source under RET. This will accommodate the industry's transition requirements from GGAS and provide immediate certainty for jobs in rural and regional Australia and support future investment in this important industry.

GE Energy Australia notes that there is strong international precedence for including WCMG in a RET scheme:

> It is important to note that there is strong international precedent for WCMG Renewable Scheme eligibility in France, Germany and the US. For example, the German Legislation on Renewable Energy (EEG) which was ratified on 15th October 2008 by the German Parliament includes WCMG as an eligible fuel. Further, as recently as 21 May 2009, the American Clean Energy and Security Act of 2009 was approved by the Energy and Commerce Committee with this Act also including WCMG as an eligible fuel. Under the proposed CPRS and expanded RET, Australia is now out of step with global precedent.[30]

30 Andrew Richards, Executive Manager, Government and Corporate Affair of Pacific Hydro, *Proof Committee Hansard*, 6 August 2009, p. 67.

In giving evidence before the Committee, Mr Andrew Richards, Executive Manager, Government and Corporate Affairs, Pacific Hydro, made the following statement arguing against inclusion of WCMG as an eligible renewable source:

> Our primary approach to that at the moment is that that would require a technology review before the legislation is put in place, which we fear would only slow down the legislative process. So we are not in favour of it. We understand that COAG has announced a technology review at a later time. We would encourage it. That would be the time to review that type of technology. Also, looking at coalmine methane, if it were just about building new stuff then so be it, but I understand that some of the people who are agitating for this change want all of their existing assets, some of which were built before the original MRET was in place, to be included in the scheme. That would be a single-purpose change to legislation that everybody else would have to comply with, which I think would open up a can of worms for every other participant in the marketplace.[31]

Coalition Senators note the objective if including WCMG as an eligible renewable source is to provide transition for businesses currently generating sustaining revenues from GGAS. There exists domestic precedence for the inclusion of waste gases in MRET and international precedence for the inclusion of WCMG in similar schemes. A technology review and further delays to implementation of RET is not necessary.

Coalition Senators support consideration of the inclusion of waste industrial gases as eligible renewable sources under RET. In its submission to the Committee, BlueScope Steel and Onesteel make the following comments:

> The RET should include as eligible sources the use of industrial by-product gases and waste heat streams (Industrial Waste Gases) to generate electricity. The proposed design of the RET creates an additional cost to major industrial facilities, but provides no incentive to utilise Industrial Waste Gases to generate electricity. Inclusion of Industrial Waste Gases would contribute to the renewable target by generating electricity from waste products and by-products and is consistent with the inclusion of other forms of waste gases as eligible sources under RET.[32]
>
> BlueScope has invested in the order of $80 million in studying the feasibility of constructing and operating a new cogeneration plant at its Port Kembla Steelworks. As a result of the economic downturn and continuing uncertainty regarding the cumulative cost of the proposed Carbon Pollution Reduction Scheme, the project is currently on hold… the ability of the SCP plant to create certificates under RET would directly affect the financial

31 Mr Andrew Richards, Executive Manager, Government and Corporate Affair of Pacific Hydro, *Proof Committee Hansard*, 6 August 2009, p. 67.

32 Bureau of Steel Manufacturers of Australia, *Submission 17*, p. 1.

> viability of the proposed project and BlueScope Steel's ability in the future to proceed with the investment. [33]

Electric heat pump water heaters

The Gas Industry Alliance has bought to the attention of the Committee some significant concerns regarding the eligibility of electric heat pump water heaters to generate RECs.

In giving evidence to the Committee Mr Gregory Ellis from the Gas Industry Alliance made the following representation:

> EHP is classified as a solar product under the definitions within ORER. They are wrong. ORER and the supporters of EHP, which is refrigeration water heating, states that they are solar products because they capture the enthalpy—enthalpy being heat—that is available in the atmosphere due to the sun's radiation…ORER, in my view, failed to delineate the performance of EHP across the range of climate variations experienced in Australia. Solar products on the other hand are required to conform to a whole raft of climate variations under the ORER and REC legislation and climate zones 1 to 4. Senators will be well versed in the fact that under different climates there are different solutions to our GHG and electrical consumption issues.
>
> EHP performance has been misrepresented to government because EHP uses best case COP— where we often hear the quoted 300 per cent. It is a magic figure. I can tell you that 300 per cent relates to only a very small operating range in this country. If you look at where the population base is in the latitudes south of Sydney you will find the heat pump has some very serious limitations. They are these: heat pumps do not operate well in conditions above 40 degrees Celsius; heat pumps do not operate well below 10 degrees ambient; and heat pumps do not operate well in geographies with low relative humidities.
>
> All I am asking is that the government institute a process where correct analysis is done and where fair playing fields are created, and I am absolutely categorical that there is no fair playing field in the awarding of 28 to 30 RET points for a heat pump proposition which is based on best case Queensland conditions against the awarding of 30 RET points for a solar system operating in Victoria which has a much lower ambient air temperature and which is required to conform to zone 1, 2, 3 and 4—very detailed performance expectations.[34]

Mr Warring Neilson of the Gas Industry Alliance further commented that a loophole in existing legislation had allowed 'rorting' to occur under MRET:

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33 Bureau of Steel Manufacturers of Australia, *Submission 17*, p. 4.

34 Mr Gregory Roberts, Industry Representative, Gas Industry Alliance, *Proof Committee Hansard*, 5 August 2009, pp. 83-4, 87.

> The abuse has come through the fact that in the MRET calculations of calculating RECs there is a loophole that exists in the quantity area in excess of 700 litres when you can put three heat pumps together in parallel and you get a multiplying effect. That means you can put anything up to 30, 40 or 50 heat pumps into an installation for no cost whatsoever. In just one audit we have taken on our own customer base, we have had 30 customers where we have had gas installations in place and they have put in heat pumps to the tune of around $2.6 million and they have generated RECs of around $6.2 million. They have been overcapitalised completely and they have just been rorting it to develop RECs. And even tonight I have had a phone call from a plumber in Victoria telling me that the rorting is going on in Victoria where people are pulling out continuous gas flow units and sticking in heat pumps and saying they are replacing electric.[35]

Coalition Senators believe these issues raised by the Gas Industry Alliance should be further considered. A thorough assessment on electric heat pump water heaters needs to be undertaken to assess the performance of these water heaters across various climates and conditions. Regulations should also limit electric heat pump installations in commercial premises to remove an ability of businesses to multiply-out REC creation. Tightening regulations in this respect and providing greater oversight is needed to ensure compliance with the objectives of the Bill, including particularly, in relation to reducing greenhouse gases.

The target

Coalition Senators do not agree with the Committee's recommendation that there be a corresponding increase in the schedule of targets under the expanded RET if a review in 2014 revises total 2020 electricity demand upwards.

Analysis of Treasury modelling undertaken for the CPRS estimates 2020 electricity demand to be 277,700 GWh[36] thereby implying renewable energy generation as a percentage of total demand will stand at 21.61 per cent.

If revisions are to be made to the targets then this should apply equally to downward adjustments in view of decreased estimates of electricity demand. On consideration of the views expressed by the renewables sector regarding certainty, Coalition Senators are of the opinion that the prospect of downward adjustment would not be welcome.

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35 Warring Neilson, Industry Representative, Gas Industry Alliance, *Proof Committee Hansard*, 5 August 2009, p. 89.

36 Treasury, *Australia's Low Pollution Future*, October 2008, charts 6.25 and 6.29.

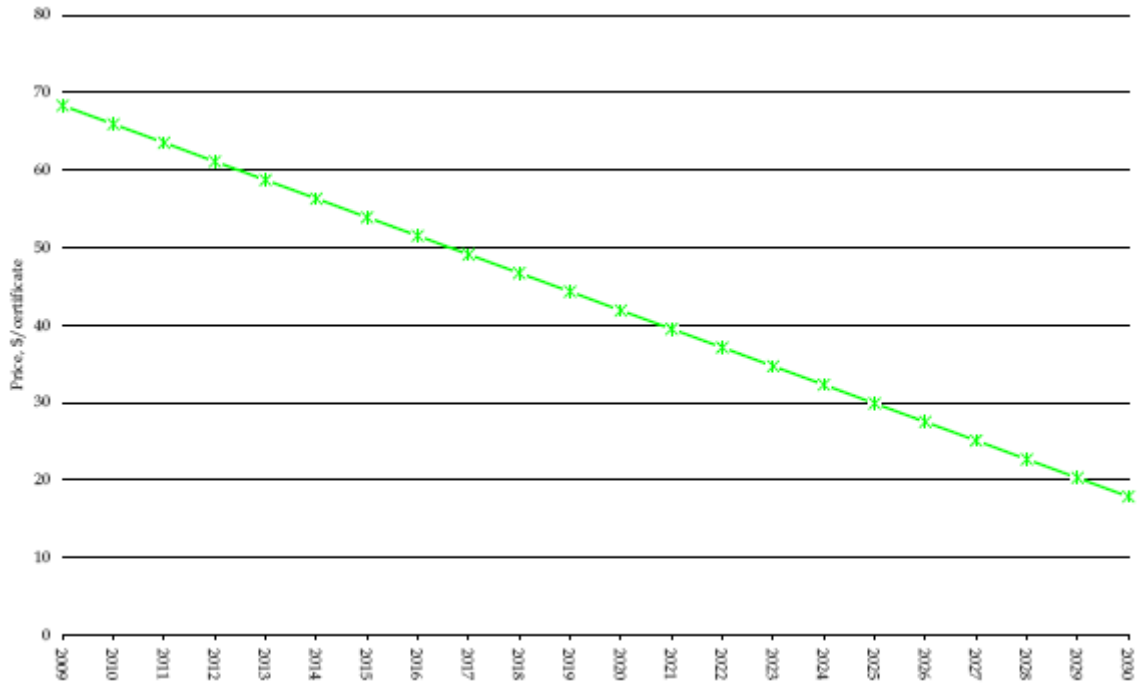
Providing for only upside risk to the renewables sector at the expense of other sectors in the economy is unacceptable, particularly in light of the level of support already provided under the expanded RET.

On the issue of expanding the schedule of targets to compensate for the creation of RECs through the Solar Credit multiplier, Coalition Senators accept the view of the Department of Climate Change that the timing of the phase out in 2015-16 means that Solar Credits will not adversely affect reaching the 20 per cent target by 2020.[37]

The shortfall charge

Coalition Senators do not agree with the Committee's recommendation to review the shortfall charge after any year in which the maximum price for RECs exceeds 80 per cent of the charge.

Government modelling conducted by McLennan Magasanik Associates (MMA) provides the following estimates for REC prices.[38]



The estimates suggest prices will remain at price of greater than 80 per cent of the shortfall charge ($53) until at least 2015.

37 Department of Climate Change, *Answers to Questions on Notice*, August 2009.

38 McLennan Magasanik Associates, *Benefits and costs of the Expanded Renewable Energy Target*, January 2009, p. 38.

The shortfall charge does not set a price ceiling. It is a non-tax deductible penalty. Any possible ceiling established by the shortfall charge will reflect a tax adjusted assessment of the penalty, which at the current rate of company tax is $93.

Banding and banking

Coalition Senators acknowledge the concerns expressed by the geothermal industry regarding the reduced incentives for the development and deployment of technologies that are not yet to market and/or have not yet come sufficiently down the cost curve to be competitive against other renewable technologies.

The coalition does not believe the Government has provided a solution to the problem and believes the Government should consult with industry to discuss this issue. Coalition Senators accept arguments submitted regarding the impact of the unlimited banking of RECs in crowding out later investments and therefore support investigations into the benefits and costs of allowing the unlimited banking of RECs. The Committee's recommendation to assess this as part of a 2014 review is highly inappropriate. This will be too late to resolve the issue if it is determined to be of materially significant consequence as to require restrictions on banking. Banking can not be addressed retrospectively without significant cost to taxpayers. It is therefore appropriate for the issue to be considered as soon as possible.

Costs and employment

Some arguments were presented to the Committee proposing a net negative effect of RET on retail electricity prices through downward pressure on prices in wholesale electricity markets. Modelling conducted for the Government by MMA found however that:

> Wholesale electricity prices for the period 2010 to 2020 average $66/MWh for the Reference scenario. The difference in price with the expanded RET is -5% to 8% over the entire period, with an average increase of 0.5%. The [downward] impact of RET is limited in these scenarios as additional renewable generation is matched by deferment of fossil fuel generation capacity and some additional retirement of existing plant. Additional volatility caused by the variable patterns of wind generation also increase prices.
>
> Retail prices, however, are expected to increase by around 3.0% in the period to 2020 and 3.7% in the period from 2021 to 2030. The increase is due to the added cost of purchasing certificates, which can add up to $4/MWh to retail prices in the period to 2020, and around $6/MWh in the period after 2020.[39]

39 McLennan Magasanik Associates, *Benefits and Costs of the Expanded Renewable Energy Target*, January 2009, pp. 40-1.

Coalition Senators acknowledge that the expansion of MRET will impose additional costs on businesses and consumers.

While modest in percentage terms, the expected increase in retail electricity prices can amount to large costs for business and these should not simply be overlooked. For example, Catholic Health Australia advised the Committee of the following:

> There will be adverse impacts on not-for-profit health and aged care service providers as a result of the implementation of the Renewable Energy (Electricity) Amendment Bill 2009 to the extent that the Bill will see an increase in energy costs for health and aged care services. We estimate this adverse impact on Catholic Hospitals in 2010 to be $650,000, leading to $1,685,000 in 2020. The adverse impact for Catholic aged care services will be $365,841 in 2010, growing to $1,035,261 in 2020. Accordingly, the total cost of the Bill for Catholic health and aged care providers is likely to total $1,022,436 in 2010, raising to $2,720,591 in 2020.[40]

The impact of renewable energy mandates, by increasing the price of electricity, ultimately impacts on profitability and potential employment in other productive sectors of the economy. Schemes that establish a market framework to provide subsidies from electricity users to higher cost renewable energy generators will undoubtedly create new jobs in the renewables and waste energy sectors. These are not costless, however, and have the potential to displace workers in other parts of the economy. This is the major thesis of the work undertaken by Dr Gabriel Calzada of the Juan Carlos University on Spain's renewable energy policies. The study found that:

> • Since 2000 Spain spent € 571,138 to create each "green job", including subsidies of more than 1 million per wind industry job.
>
> • The programs creating those jobs also resulted in the destruction of nearly 110,000 jobs elsewhere in the economy, or 2.2 jobs destroyed for every "green job" created.
>
> • Principally, these were lost in metallurgy, non-metallic mining and food processing, beverage and tobacco.
>
> • Each "green" megawatt installed destroys 5.28 jobs on average elsewhere in the economy: 8.99 by photovoltaics, 4.27 by wind energy, 5.05 by mini-hydro.[41]

Coalition Senators do not take a view on the appropriateness of using this report to make comparisons to Australia's policies and circumstances, but simply note that reducing greenhouse gases by providing support to the renewables sector is not costless. As noted above, this is supported by Treasury's modelling, which shows

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40 Catholic Health Australia, *Submission 18*, p. 2.

41 Gabriel Calzada, *Study on the Effects of Employment of Public Aid to Renewable Energy Sources*, March 2009, p. 2.

greenhouse gas reductions achieved under RET will cost an average of three times more than reductions under the CPRS.

In view of the Committee's view to accept the results of modelling undertaken by MMA for the Treasury finding the RET having a significant positive impact on employment in the renewables sector, Coalition Senators note that this modelling was undertaken for the Climate Institute. [42]

Conclusion

Coalition Senators have indicated further support for expansion of renewable and clean energy technologies and will stand by those commitments. The Coalition supports the Government's target.

A final position on the Bills is reserved pending the Government's response to, and approach on, decoupling schedule 2 of the Bill from passage of the CPRS. This must:

- accommodate existing exemptions to emissions-intensive, trade exposed industries in stand-alone RET legislation;
- provide a full 90 per cent exemption for aluminium smelting from the RET and the MRET; and
- provide certainty and continued support to the WCMG industry by including WCMG as an eligible renewable source under RET.

The Government must move to address the costs imposed on agricultural processing facilities. These are significant and will ultimately be borne by farming families in industries the Government considers will be classified as emissions-intensive, trade-exposed.

The Government must move to address issues associated with electric heat pump hot water systems by reviewing technology performance and tightening regulatory controls.

Senator Barnaby Joyce

Senator Alan Eggleston

Deputy Chair **Senator Ron Boswell**

42 Meghan Quinn, General Manager Macroeconomic Modelling, Treasury, *Proof Committee Hansard*, pp. 8 & 10; Department of Climate Change, *Answers to Questions on Notice*, August 2009.