Australian Sugar Milling Council Industry Submission

to the Inquiry on

Renewable Energy (Electricity) Amendment Bill 2009
and a related bill

Senate Economics Legislation Committee

ASMC Industry Submission

Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill.

The Australian Sugar Milling Council (ASMC) is a voluntary organisation, established in 1987 to represent Australian raw sugar mill owners. ASMC is the peak policy forum for sugar mill owners. Companies that own and operate raw sugar mills in Queensland are members of the Australian Sugar Milling Council.

ASMC provides this submission on behalf of the Australian Sugar Milling Industry, which spans the sugar growing regions of regional Queensland and Northern New South Wales, and includes 10 companies with 24 associated sugar mills, each with a cogeneration operation.

Sugar milling industry position

The Australian Sugar Milling Industry supports the legislative framework for the National Renewable Energy Target (NRET), as proposed by the Federal Government. That is:

- We support the current redesign of the scheme, as outlined in the proposed legislation;
- We support the proposed penalty price;
- We support the proposed review of heat exchanger hot water systems, to determine whether these appliances fit with the intent of the scheme;
- We accept the treatment of partial exemption for emissions intensive trade exposed industries (EITE) as defined under the proposed Carbon Pollution Reduction Scheme (CPRS).

The proposed RET legislation was developed within a public consultation process, and provided sufficient opportunity for all stakeholders to address scheme design concerns. We note that the linking of RET and CPRS did not appear to raise industry concerns until the passage of the CPRS legislation came into question.

Senate debate on the legislation identifies linkages between RET and the CPRS as a fundamental concern for dissenting parties. The Australian sugar milling industry does not support reopening the design of the Scheme. The detailed and technical public consultation that has occurred to date is sufficient, and the ASMC urges rapid enactment of the RET legislation.

The Australian sugar milling industry **does not** support

- Holding the NRET legislation back on the basis of CPRS
- Further analysis of assistance to EITE industries or other affected parties under the legislation;
- Redesign of the scheme structure (including allocation of RECs) or penalty price.

RET legislation provides critical opportunities in regional communities throughout Australia, as it enables

- Major investment in regional communities;

- Increased regional energy security;
- Jobs creation throughout regional Australia;
- Investment in electricity generation in a supply constrained market with few other alternatives;
- Dampening of escalating electricity retailer prices through increased electricity supply;
- Dissipation of high transmission losses and costs through embedded regional generation;
- Improved supply flexibility and capacity within regional electricity reticulation infrastructure; and
- Diversification of Australia's energy portfolio, in a way that delivers added value to existing regional industries.

The sugar industry is one of many across Australia that can deliver significant energy generation projects in areas most exposed to electricity supply shortages – regional Australia. Like other processors and manufacturers, we have the capacity to develop projects that assist the sugar industry to risk manage and diversify its product portfolio, while delivering direct, tangible benefits to its community.

However, we cannot deliver these regional opportunities without policy certainty around the RET. Passing the *Renewable Energy (Electricity) Amendment Bill 2009* and associated legislation will provide certainty.

Current energy environment

Australia's current energy environment is characterised by:

- A lack of policy certainty for all electricity generation investment
- No planned investment in electricity supply projects;
- Continued increases in retail electricity prices (15 – 20% in the current quarter);
- Older reticulation infrastructure requiring capacity and standards upgrade; and
- Ongoing growth in electricity demand, leading to further price increases as supply becomes even more constrained.

There is presently no major planned investment in Australia's electricity generation sector. Investors are reluctant to fund coal-fired generation projects without resolution on some form of emissions trading or reduction scheme in a carbon constrained future. Similarly, gas-fired generation opportunities are increasingly likely to be diverted towards LNG production, particularly following the wind up of incentives such as the Queensland 13% Gas Scheme.

Investment decisions in the non-renewable energy sector are dependant on final Australian Parliament decisions as to the type of emissions reduction legislation. That is, whether the CPRS is adopted, or some other form of emissions reduction instrument is used to meet Australia's obligation under the Kyoto Protocol.

There is also a lack of renewable energy investment around Australia, but particularly prevalent in Queensland and New South Wales. The sugar industry is ready to invest in the renewable energy sector, but is constrained by renewable energy policy uncertainty due to the delay in the RET legislation. Renewable energy generation projects are **not** dependant on the CPRS.

Following deregulation of the electricity sector, electricity prices have continued to rise, with a 15-20% increase in the current quarter. A lack of investment in the energy sector leads to ongoing price increases by retailers. Price increases also reflect the increased price of generating electricity in the future. The cogeneration expansion projects pursued by the sugar industry deliver a tangible benefit to regional communities – and reduce price impacts by reducing State Government community service obligations.

Major industry investment

The sugar industry currently generates over 50% of Queensland's renewable energy, and 5% of its total energy needs. However

- Sugar industry cogeneration projects vary in scale and capital investment, but universally benefit the region of location as embedded generators.
- All 10 Australian sugar milling companies have reviewed opportunities for cogeneration expansion over the last 10 years, but found the over-prescribed 2% Mandatory Renewable Energy Target, coupled with the fortunes of the industry at the time, uncommercial.
- A 20% target provides real investment incentive, at a time when the sugar industry's financial outlook is very positive, and there is capability to invest.
- There is industry potential to develop approximately 3-5 large regional cogeneration projects (proximate scale of the Mackay Sugar Project). These types of projects typically require investment of some $150 million.

The proposed amended RET legislation provides some level of certainty around a price range for renewable energy. This allows sugar milling companies and energy retailers to enter into forward pricing arrangements without prescribing the cost of renewable energy. This in turn provides some certainty regarding return on investment, typically based on a 15 – 20 year period. Without the amended legislation, neither party will enter into a contract which would make projects unviable.

Regional Projects– 2 case studies

Mackay Sugar Limited has developed a $100+ million cogeneration expansion project, to be constructed over the next three years. This project will deliver 167 direct and 109 indirect jobs, and generate enough additional power to supply one third of Mackay. In addition to attracting $9 million of Queensland Government support, the company has completed project specifications, including detailed design, engineering and contract specifications and has progressed project funding conditional upon a viable Power Purchase Agreement (PPA). Without RET legislation, it is not possible to secure a viable PPA. There is significant cost and capacity investment required to align all aspects of this project. Hence further delays implementing RET legislation is placing this project at risk.

The lack of policy certainty also impacts on existing projects.

The NSW Sugar Milling Cooperative has invested a total of $200 million in two 30MW expansion projects over the last two years. These projects combined employed a total of 530 people during peak construction, and have subsequently delivered regional energy security *for northern New South Wales by providing 50% of the Tweed Valley's power requirements, and 25% of the Richmond Valley. However, the viability of these projects is now at risk, as a result of the price slump for renewable energy certificates (RECs), following the referral of the RET legislation to the Senate Economic Legislative Committee. These projects are currently running at marginal cost. Any further delays to the implementation of RET legislation, and subsequent crash in REC prices could ruin these regional projects – projects necessary to both the community and the industry.*

Increased regional energy security

Sugar industry cogeneration projects increase regional energy security by:

- Delivering electricity to adjacent townships and industries;
- (subsequently) improving reliability and quality of supply;
- Dissipating community service obligations and strain on grid supply, particularly to northern Queensland.

Jobs creation throughout regional Queensland and northern New South Wales

- All cogeneration projects, irrespective of scale, provide economic stimulus in the supporting township, and sustain a critical (often principal) local employer;
- Regional scale projects (like the Mackay project) would be expected to generate in excess of 150 jobs through direct employment and an additional 100 indirect jobs during the three year project construction;
- In addition, large scale projects are likely to occur in regions (or adjacent) affected by the downturn in the resources sector, smoothing the employment peaks and troughs of the mining sector.

Constraint on electricity price increases through RET

Sugar cogeneration projects rely on proven, mature technologies, and are adjuncts to large scale, manufacturing facilities, with environmental management and regulatory approvals in place. This reduces project risk.

In addition, sugar cogeneration is one of the more reliable forms of renewable energy generation, and when centred on large scale regional projects, has the potential to generate for 50 weeks of the year – effectively creating a renewable energy base load generator. Consequently, the more frequently a generator operates, the lower the long term cost of operation. Hence sugar cogeneration projects have greater potential to supply lower cost renewable electricity over time, compared with emerging renewable energy technologies. That is, sugar milling cogeneration is the closest type of renewable generator to baseload, and with additional investment can approach this with proven known technology solutions

Critically, the supply constrained electricity generation sector needs investment in new projects to alleviate further price increases and greater diversity overall. Sugar cogeneration projects provide the basis for this required new investment.

Conclusion

In conclusion, the Australian sugar milling industry supports the framework for RET as defined by the proposed RET legislation, in that the legislation promotes significant investment in regional communities, which in turn leads to increased regional energy security; enables regional jobs creation throughout Australia; and enables energy diversification in a way that delivers value to existing regional industries. Recent and pending projects within the sugar industry clearly demonstrate this potential, and implementation of the legislation will enable other regional industries to identify similar opportunities.

However, the proposed RET legislation also provides genuine incentive as a generator's scheme, and as such has the potential to significantly improve the efficiency of energy supply throughout regional Australia. Renewable energy projects typically occur adjacent to regional communities, and as such embed the benefits of direct supply to areas of Australia that are typically ignored by large scale generator investors, yet generate greatest maintenance cost in outages, transmission and distribution losses. The benefits of reliable energy supply to regional Australia has a direct and positive financial impact on all Australian electricity consumers and should not be undervalued in this discussion.

The Australian sugar milling industry urges the Senate Inquiry, and more particularly the Senate, to urgently pass the RET legislation. We also urge the Senate to resolve the linkage issues between RET and CPRS without impacting the proposed RET framework, including the level of EITE assistance, which reflects the detailed and technical public consultation undertaken during development of the proposed legislation.

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sugar milling
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