Senate Economics Legislation Committee Inquiry into the Renewable Energy (Electricity) Bill 2009 and a related bill

CSR Limited has been operating in Australia for 154 years. The company is a leading diversified manufacturing company with operations throughout Australia, New Zealand, China and South East Asia. For the year ending 31 March 2009, revenues were $3.5b with capital expenditure of *approximately* $415m. The company essentially operates within four divisions. These comprise Building Products, Sugar, aluminium smelting, through our shareholding in the Tomago aluminium smelter and Property Development.

Recently the sugar group extended its interest in power cogeneration using bagasse with an investment of $160m in the Pioneer mill. The project was made possible through the MRET scheme. CSR is the sixth largest generator of RECs under MRET and the Pioneer facility is the third largest in capacity installed under the scheme. As the MRET target was not extended at the time, further investment in other CSR sugar mills was suspended. An additional capacity of 300MW could be installed depending on default pricing and the forward curve estimates under the 20% renewables by 2020 policy of the Government. To this extent CSR supports an expansion of the RET scheme.

Monier™ Solar Tiles is part of CSR's Monier roof tile business. Solar roof tiles can simply and efficiently be integrated into a tiled roof. This business is in its infancy, although there is considerable interest from new home builders and renovators in this architecturally pleasing and innovative method of producing photovoltaic electricity. A sound policy for photovoltaic installations on domestic and commercial buildings will enable growth in this business, provide consumers with alternatives to panels and help deliver the government's policy objectives.

RET Bill and Impact on Aluminium Smelting

CSR has an effective 25.2% interest in the Hunter Valley based Tomago aluminium smelter – part of the electricity intensive trade exposed sector. Our other partners in Tomago are Rio Tinto, with 51.5%, Norsk Hydro, 12.4% and AMP holding 10.8% through its partnership with CSR in Gove Aluminium Finance. The smelter commenced production in 1983 and was the first of the technically efficient and advanced (AP18 technology) large scale plants to be constructed in the world. It is the second largest employer in the Hunter region directly employing 1200 people. The facility spends about $750m on Australian goods and services annually.

This smelter is a world-class asset and ranks number 12 of the primary aluminium smelters in the world. The asset replacement value is AUD$3.0b. Sales exceeded AUD1.5 B in 2008. Approximately 85% of production is exported. All of CSR's production interests are exported, contributing significantly to Australia's balance of payments and adding value to the primary raw materials of Australian bauxite and coal. Export prices are based on the international metals price based on the London Metal Exchange (LME). Any additional cost impost on the business cannot be recovered in the market, unless that cost impost applies equally to all global producers. This is not the case under the RET scheme or its expanded form as proposed.

There is potential to expand the Tomago smelter creating additional well paid and skilled jobs and significant export earnings for Australia. This investment would improve the international competitiveness of the facility and extend the life of the asset by 25 to 30 years. The present AP22 technology (an upgraded AP18 technology) remains at world class in terms of efficiency and its scope 1 greenhouse gas emissions are at the lower end of other smelters and scope 2 emissions are at the lower end of other coal based smelters. Importantly we believe Tomago has a significantly lower emissions footprint than coal comparable smelters in China, the country where most of the world's smelting expansion has taken place in the last five years. Electricity is a major input to the aluminium smelting process and the Tomago demand of 900MW represents a significant proportion of production costs and therefore the implications of the expanded RET scheme are substantial. Favourable electricity prices are a prerequisite to any expansion. They underpin the competitiveness of the smelter in international markets.

The consequences of the expanded RET policy is that a higher power price, including the REC price will flow through the market to all consumers, in a similar way that emissions trading will flow through a higher power price. With the MRET target at 2%, the impact on the cost competitiveness of Aluminium for Tomago was tolerable and was accepted for the duration of the scheme. Notwithstanding the exemptions for energy intensive trade exposed industry under the proposed bills, the cost impost on Tomago smelting will be well over double that imposed under the existing MRET scheme. This arises from the higher default price. In addition a greater liability arises from the extension of the scheme life. The entity should be exempt from this additional burden where they are unable to pass the cost on.

Tomago is considered a large energy user under the provisions of the NSW GGAS scheme and as such has certain liabilities, although GGAS should be subsumed in CPRS. Again GGAS imposes a burden on the international competitiveness of the business and one not faced by not only international rivals, but also interstate rivals. To add further burden, the smelter is liable under the NSW Energy Savings Scheme, although under the Victorian white certificate programs, aluminium smelting has been exempted.

Clearly the Federal Government has recognised this issue both in the design of CPRS and in the draft RET bill, although the proposed partial exemption in RET does not go far enough. While the headline exemption rate for Aluminium is 90%, this only applies to the extended renewable electricity obligation. ***The effective exemption rate is only 55%.***

The total impact of the proposed measure of approximately $75/t (US$55/t) of aluminium compares with current selling prices of about US$1500/t. This will push the Tomago smelter on the cost supply curve from first quartile towards the middle of the cost curve of world smelters. At present more than 50% of smelters in the world are operating at a loss. Those at the high cost end of the supply chain are generally the first to close in capacity when times are tough. At this end of the supply curve re-investment generally reduces, hastening the declining cycle of cost competitiveness. Once shut, smelters generally do not re-start and face permanent closure. The impact of this measure would be to substantially reduce the operating life of the asset at Tomago, reduce ongoing investment and remove expansion prospects and yet without the RET measure, it is a world class asset.

MRET style schemes are not widespread amongst our trade competitors and this constitutes an additional penalty on Australian industry. Policies which deal with environmental measures must also be sustainable measures. Clearly the extension of RET without appropriate exemption for aluminium smelting is not a sustainable policy. The policy does not reduce emissions under the CPRS cap and trade scheme, so there is little benefit to the planet, it has the potential to cause job losses and forego well paid job creation by way of expansion and it will be a significant hit to profit. Without exemption for electricity intensive trade exposed industry, the policy clearly fails the sustainability test. The impact could be mitigated by **exempting aluminium smelters from 90% of the liability across the *whole* liability**, not just the increment as proposed by the bills.

There is a clear case to provide a 90% partial exemption for Aluminium smelting across the full obligation.

Decouple RET Bill from CPRS legislation

The proposal under the draft RET Bills to partially exempt Energy Intensive Trade Exposed Industry is a further welcome recognition by Government that Australian manufacturing industry needs to remain internationally competitive. CSR Limited has supported the introduction of RET legislation in previous submissions to Government as the company sees renewable energy and this legislation as an important industry development measure to advance the introduction of renewables ahead of CPRS. Given the uncertainty with the passage of the CPRS Bill, CSR recommends that the partial exemption measures in RET be decoupled from the CPRS Bill. This could simply be achieved by deleting the reference of the emissions-intensive trade-exposed assistance program and amend the definition of "emissions-intensive trade-exposed activity" to one that is defined in the RET Bill regulations. Aluminium smelting, recognising its specific status, would need to sit outside this definition due to its need for full exemption and this should be provided for in the Act.

The RET Bill should be decoupled from the CPRS legislation by including the energy-intensive trade-exposed definition in RET Bill regulations. Aluminium exemptions should be included in the Bill.

Scheme Review

Renewable energy generation projects such as bagasse based cogeneration are relatively low return projects. It is therefore important to de-risk these projects to improve the certainty of project returns being achieved. One factor which raised the risk profile of these projects is the short review period. Knowing that a review will be conducted in 2013 makes it unlikely that a board will approve a project until that review is completed, further delaying project start-up and reducing the project life. Boards recall the last review conducted on MRET when solar hot water RECs swamped the market and the Government failed to raise the targets. This review effectively stifled investment plans which were under way for further bagasse based co-generation projects. Government can review policy as and when required. It is preferable that this be maintained rather than build in the uncertainty of a 2013 review. It is likely project development will go on hold while the review period is underway and proponents await a response from industry. The review adds project uncertainty and risk.

Scheme Review should not be specified in the Act. Government can review its legislation whenever required. Specifying a review period is likely to create further delays

Treatment of Solar Generation

CSR welcomes the provisions for solar photovoltaic installations. However a threshold of 5kw is required to provide enough power for a typical house. Owners who install facilities to meet their power needs should not be penalised or sent market signals to lower their installed capacity.
The proposed reduced multiplier starting at 5 RECs/MWh in 2009, declining to 1 REC/MWh in 2015 will again leave the industry in a position where sustainable development of the industry may be at risk. It is not worthwhile trying to build a new market which will fall away in three or four years. The transition to low multiples provides Government with the opportunity to move to a Gross Feed-in Tariff (GFiT). The GFiT can be ramped up progressively as the REC multiplier is phased down.

CSR recommends that the 1.5kw limitation on household solar PV be raised to 5kw. A gross Feed-in Tariff should be introduced as the REC Multiplier declines as a separate measure.

Overall Renewable Energy Target

The multiplier for solar and small scale generation while welcome does dilute the Government target of achieving 45,000 GWh pa of electricity from renewable sources. The multiplier will cause less renewable energy to be delivered for the same number of certificates. The overall renewable electricity target should be increased to take account of the increase in certificates on an annual basis. Carbon Markets Economics in its Issue 3, March 2009 research report, suggests that in 2008 solar PV RECS comprised almost 5% of the market. Applying the multiplier of 5 then PV would comprise a significant share of the market in the first 5 years of RET. They also project that in 2020 PV RECs will account for 32% of the target and that in 2012 with the multiplier in place they could account for the entire target. Exciting as this prospect may be, the Government would substantially fail to meet its renewable electricity target.

Furthermore it is not clear from the amendments that the target will also be adjusted for the partial exemptions. The partial exemptions on liable parties means they are not required to levy charges against EITE entities through the provision of certificates from the regulator i.e. they are exempt from the shortfall charges. If this is not compensated for in the percentage renewable power calculations then there will be a much lower demand for RECs and thus a further diminution in renewable power generated. The exposure draft commentary suggests this will be taken into account – see p 9 item 27 although this is not clear as to exactly how it would be calculated. The calculation should be made transparent in the regulations.

The overall renewable electricity target should not be reduced by solar and small generation multipliers or through partial exemptions.

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