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Committee Secretary
Senate Standing Committee on Economics
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AUSTRALIAN INDUSTRY GREENHOUSE NETWORK

To the Committee,

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

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to comment on the provisions of the Renewable Energy (Electricity) Amendment Bill 2009 and the Renewable Energy (Electricity) (Charge) Amendment Bill 2009.

AIGN is a network of Australian industry associations and businesses that have a serious interest in climate change issues and policies. A list of AIGN members can be found at http://aign.net.au/membership/.

AIGN's members have a range of views on greenhouse policy. These comments accord with the views of AIGN members in general, though it may differ in particulars, relating to both principle and detail, from the positions of some individual member associations and companies. Some have prepared submissions of their own, and these comments should be read in conjunction with those submissions.

AIGN has previously made detailed submissions to Australian governments on greenhouse and energy policy with respect to complementary measures additional to a national emissions trading scheme (ETS), and has made specific comments on the development of MRET, and more specifically on an expanded RET[1], including the exposure draft of the Renewable Energy (Electricity) Amendment Bill 2008, and the proposed assistance for RATE industries under the expanded RET.

Complementary measures

AIGN must restate its view that, contrary to the assertions made by COAG that '*the RET is a complementary measure*'[2], the Commonwealth's mandatory national RET and all state based renewable energy target schemes fail the COAG Principles for complementary measures. No 'other market failure' additional to that which is addressed by the CPRS has been identified by the Commonwealth or State

1 AIGN Submission to the Exposure Draft – Renewable Energy (Electricity) Amendment Bill 2008. February 2009, http://aign.net.au/file_download/875/AIGN_RET+Draft+Legislation+submission_final.pdf, AIGN submission on RET Design Options Discussion Paper, http://climatechange.gov.au/renewabletarget/consultation/pubs/080aign.pdf and AIGN submission to COAG Working Group on Climate Change and Water: Discussion Paper – Treatment of electricity-intensive trade exposed industries under the expanded national Renewable Energy Target scheme, http://aign.net.au/documents/#submissions.

2 COAG Working Group on Climate Change and Water Discussion Paper on Treatment of electricity-intensive, trade-exposed industries under the expanded national Renewable Energy Target Scheme, p 7.

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Governments. Further, as the Treasury modelling shows[3], the RET achieves potential emission savings at around three times the cost of the CPRS, thereby failing the least cost requirement. The RET will crowd out the adoption of economically efficient investment in new electricity generation capacity and innovative abatement reduction activities for the next 20 years, and defeat emissions trading as the 'heart' of emission reduction in that sector. Analysis by the Productivity Commission and modelling commissioned by the Australian Petroleum Production & Exploration Association clearly demonstrate this flaw in the RET particularly with regard to under-investment in gas-fired electricity generation[4].

AIGN's views are widely supported. Every independent assessment of the RET, including those undertaken by the Productivity Commission, Professor Garnaut, the Treasury and the Wilkins Review, has come to the same conclusion as AIGN.

Accordingly, AIGN does not support the further expansion of RET. The scale of the expansion of the renewable energy target from the existing MRET to RET will impose substantial additional costs, for no greenhouse gas abatement benefit over and above that of the CPRS.

In addition to this, the design of the RET is unlikely to encourage the deployment of a range of next generation renewable energy technologies, particularly developing Australian technologies.

AIGN has consistently acknowledged that in both the global and domestic contexts, emissions trading alone, at least in its early implementation, is unlikely to be a sufficient policy response to tackle the array of national, sectoral and technology circumstances and challenges. In particular, there will be the need to stimulate RD&D beyond that which would be delivered by the private sector alone. There is evidence that, because effective emissions trading schemes exist by government fiat only, the sovereign risk this entails inhibits a socially optimal level of investment in RD&D (see for example Montgomery and Smith[5]). AIGN suggests that a significantly expanded, public funded RD&D effort will be required, rather than addressing this policy dilemma with a flawed program such as the expanded RET.

Emissions intensive trade exposed industries

AIGN notes that Schedule 2 of the amendment Bill addresses partial exemptions from liability to the charge. AIGN has made separate comments on the treatement of Emissions Intensive Trade Exposed Industries in its response to the COAG Working Group on Climate Change and Water Discussion Paper on Treatment of electricity-intensive, trade-exposed industries under the expanded national Renewable Energy Target Scheme. Specifically, if the continuation of the RET is an inevitability - AIGN

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[3] Commonwealth of Australia, *Australia's Low Pollution Future,* October 2008.

[4] *What Role for Policies to Supplement an Emissions Trading Scheme?,* Productivity Commission Submission to the Garnaut Climate Change Review, May 2008. *Implications of a 20 per cent renewable energy target for electricity generation,* Report for the Australian Petroleum Production & Exploration Association by CRAI International, November 2007 (available from www.appea.com.au/content/pdfs_docs_xls//NewsMedia/APPEAMediaReleases/attachment_2.pdf).

[5] Montgomery, David W. and Smith, Anne E. 2005, "Price, Quantity and Technology Strategies for Climate Change Policy", CRA International. Available from: www.crai.com.

supports the exemption of trade exposed industry from the effects of the RET as a whole.

The RET represents an additional cost for industries reliant on electricity for production and a significant erosion of competitiveness for those trade exposed industries unable to pass these costs onto consumers. Without design features that offset this loss of trade competitiveness, the RET promises to contribute to the loss of jobs from existing businesses and new investment opportunities, particularly in regional Australia.

Potential trade exposed mining and manufacturing industries consume around 37% of Australia's electricity production. Based on the MMA report[6], without exemption, AIGN estimates the RET could reduce the international competitiveness of those industries by $340 million in 2010 and $1000 million in 2020. This will cost Australian jobs and investment for no substantive environmental benefit — an outcome reinforced by the modelling results commissioned by the Department of Climate Change from MMA, which concludes,

> *The expansion of renewable energy generation reduces greenhouse gases from the electricity sector but it does not, of itself, add to the abatement to achieve the fixed target under the CPRS. The bulk of additional abatement coming from renewable generation displaces offsets from overseas.*[7]

A number of AIGN members have proposed amendments to improve the proposals for EITE support under the RET, and we recommend that the committee consider these favourably.

In addition to this, it is AIGN's view that it is critical that Bill be amended to 'decouple' the partial exemption for EITE activities under the RET from the commencement of the Carbon Pollution Reduction Scheme (3 Subjection 5(1)). That is, EITE activities should receive the partial exemption as soon as the RET commences, regardless of the outcome for the CPRS legislation.

The Expanded RET

Existing schemes

AIGN recognises that the existing 9,500GWh MRET, and perhaps 3,500GWh of the 20,000GWh renewables targets proposed by the States, have created property rights that need to be respected by governments. As a second best option, AIGN restates its recommendation that the least-cost and equitable solution would be a national RET scheme that has the following features:

- The scheme should terminate in 2020 as is currently legislated;
- The mandatory target should be ramped-up from 9,500GWh in 2010 to 13,000GWh in 2020;

[6] MMA, *Benefits and Costs of the Expanded Renewable Energy Target,* Report to the Department of Climate Change, January 2009

[7] MMA, *Benefits and Costs of the Expanded Renewable Energy Target,* Report to the Department of Climate Change, January 2009, p32

- From 2010, the RET penalty of $40/MWh, which caps the subsidy and hence the inefficient cost of the scheme, should be annually reduced by the $/MWh equivalent of the emissions trading permit price;
- The amount of electricity consumed by trade exposed industry should be excluded from the assessment of those liable to meet RET targets. In this way, there is no increased burden shifted to others in the community, although there will remain a burden of increased electricity prices arising from the RET.

Eligible sources of energy

The RET should include as eligible energy sources the use of 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, many of which are currently flared.

Similarly, waste coal mine gas should be an eligible energy source for the purposes of the RET.

This proposal to include all waste gases is entirely consistent with the existing inclusion of other forms of waste gases as eligible sources under MRET. These other already eligible waste gases include wood waste, agricultural waste, food processing waste, bagasse, landfill gas and sewage gas.

Specific elements of the bills

In its previous remarks on the exposure draft of the legislation AIGN made a number of comments to specific elements of the Bill, these aspects of the bill remain unaddressed, so AIGN must reiterate its view.

Renewable Energy (Electricity) Amendment Bill 2009

- *8 - Section 40 (table item dealing with 2010 and later years)*

Prior to the 2007 Federal election the ALP committed to an expansion of MRET to ensure 20% of electricity is sourced from renewable energy by 2020. This objective was restated by Minister Wong in her G20 workshop address:

> *"As part of Australia's move to a low pollution future, the Government has committed to a 20 per cent Renewable Energy Target, new Solar Credits, investment in carbon capture and storage, and action on energy efficiency.*
>
> *The Renewable Energy Target will ensure 20 per cent of Australia's electricity – the equivalent of all household electricity consumption - is sourced from renewables by 2020, helping us build the low-pollution economy and jobs of the future."*[8]

Section 40 of the draft amendment Bill lists the ramp-up of annual targets from 2010 (12,500GWh) rising to 45,000 GWh in 2020 continuing to 2030.

AIGN contends that the Government's stated commitment is to 20% renewable energy, and that it is this commitment that should be legislated, rather than the

[8] Senator The Hon Penny Wong, Minister For Climate Change and Water, *G20 workshop: The economic and financial implications of climate change*, Official dinner keynote address, Sydney, Friday 13 February 2009

schedule identified in Section 40. If it is deemed necessary to list the target in direct figures, Treasury modelling for the CPRS White Paper indicates that the schedule in Section 40 is in excess of the 20% commitment. Treasury modelling forecasts that Australian electricity demand in 2020 will be 260,000GWh, and this suggests that the target in 2020 is 37,000GWh, not 45,000GWh as expressed in the legislation. If AIGN's recommendation of a 13,000GWh target is rejected and the Government's 20% objective retained, then the Bill should be amended to reflect a 37,000GWh schedule by 2020.

- *9 - Section 162: Review of operation of renewable energy legislation*

The amendment Bill provides for a review of the program four years after its enactment. AIGN suggests that this Bill should also include the terms of reference for the review, and should be drafted to ensure that in no way does the review compromise current and future investment security. The terms of reference should stipulate that the review is only of the proper implementation of the policy, not of the objectives.

Renewable Energy (Electricity) (Charge) Amendment Bill 2009

The amendment Bill states that the *Renewable Energy (Electricity) Charge Act 2000* will be amended to set the shortfall charge penalty for non-compliance at $65/MWh, increasing it from $40/MWh.

AIGN restates its view that from 2010, the RET penalty of $40/MWh should be annually reduced by the $/MWh equivalent of the emissions trading permit price under the CPRS.

Yours sincerely

Michael Hitchens
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