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Mr Bernie Fraser
Chairman
Climate Change Authority
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Dear Mr Fraser



THE CLIMATE CHANGE AUTHORITY'S DISCUSSION PAPER

Thank you for the opportunity to provide comment on the recommendations set out in the Climate Change Authority's Discussion Paper (Discussion Paper) on the Renewable Energy Target. IPART's position on the RET was articulated in our submission on your Issues Paper.

In our view, the introduction of the carbon price removes the need for the RET to subsidise investment in the renewables sector. The RET is not complementary to the carbon price; it does not cost effectively address any other significant market failures, it creates market distortions and it has the potential to interfere with the efficient operation of the carbon price and ETS. The COAG has made a commitment to remove schemes that are not complementary to the carbon price, to avoid electricity customers incurring unnecessary costs. We encourage the Authority to reconsider its position.

Nevertheless, we would recommend that if the RET is to be retained it be a *single, technology neutral, capped scheme*. In our view, there is likely to be limited impact on investment certainty for large scale investors by merging the schemes given that the solar credits multiplier is reducing to unity on 1 July 2013 and state governments are removing the generous industry assistance that was previously provided to small scale technologies. It is also more likely to promote both efficient investments in renewable generation, whether large scale wind or small scale solar. A 'level playing field' among renewable technologies will encourage the achievement of the RET at least cost. We consider that the Authority's preliminary decision will not deliver the target at lowest cost, leading to higher than necessary prices and lower productivity throughout the economy.

In the context of retaining separate schemes, the Authority notes that it is interested in examining changes to lower overall costs. In our view, many of the measures put forward to reduce the costs of the SRES to electricity customers, such as providing the Minister with discretion to discount the number of certificates created by a small scale investors, are likely to significantly reduce investment certainty to small scale investors and create further

discretion to discount the number of certificates created by a small scale investors, are likely to significantly reduce investment certainty to small scale investors and create further uncertainty for retailers and regulators in determining the costs of complying with the scheme.¹

The Authority has called for feedback on a number of its specific recommendations. In this context, IPART provides the following commentary on some specific issues raised in your discussion paper:

Eliminate the use of multipliers to create a technology-neutral target

We do not support the Authority's recommendation that the Minister reduce the multiplier to below 1 as a way of preventing the costs of the SRES "getting out of hand."² (Recommendations 8 and 9). We consider that the RET should be technology neutral such that competition between technologies is on the basis of cost, to encourage the least cost deployment of renewable generation. Reducing the number of certificates that eligible small scale technologies can create effectively penalises these technologies. Further, as discussed above, we consider that changing the multipliers by providing the Minister with discretion to update the multiplier annually leads to considerable uncertainty for investors, retailers and regulators.

Set a target based on the community's willingness to pay

If the SRES is to be retained, we consider that setting a cap in line with the community's willingness to pay is preferable to the Minister determining adjustments on an annual basis to the number of certificates created by small scale investors (recommendation 9).

In our view, it is better to specify the aims of a scheme rather than specifying a budget to be spent by electricity customers. We also consider that the target should be set with reference to the willingness to pay by the community. The levels of the targets are a policy judgement made by Government on behalf of the community. They reflect the desired trade-off between achieving particular environmental goals (ie, promoting renewable generation) and imposing costs on electricity customers, government budgets and ultimately economic growth. Evaluating the merits of the annual targets requires a clear understanding of the various costs and benefits associated with the scheme. To assist community understanding of these trade-offs we would encourage the Authority to provide clear analysis on the costs and benefits of the SRES under a range of alternative annual targets.

¹ Discussion Paper: Renewable Energy Target Review, p94.

² Discussion Paper: Renewable Energy Target Review, p89.

Improve the administration of the RET

We support the Authority's recommendation that the liabilities – the renewable power percentage and the small-scale technology percentage – be set before the start of the compliance year (by 1 December each year) (recommendation 14). It is difficult for retailers (and regulators, where applicable) to set prices for a year when they do not know what the obligations will be for that year.

Correction to your use of IPART's estimated cost of the RET

The Discussion Paper³ refers to IPART's determinations in providing an estimate of the impact of the RET on regulated retail customers in NSW. It notes that this cost will be \$70 per customer in 2012/13 (or around 3% of regulated retail bills). Unfortunately this is not correct. The Discussion Paper does not include the 'catch-up' component that IPART approved in 2012/13 as a result of the substantial upwards revision in the number of certificates that retailers were required to purchase in 2012.⁴ Our submission to the Authority's Issues Paper noted that in 2012/13, regulated electricity customers in NSW consuming 7 MWh are paying \$102 for the RET (around 5% of regulated retail bills).

Further, we note that the Clean Energy Regulator has substantially increased its estimate of the number of certificates that retailers will need to purchase in 2013 – for regulated prices this could require a further cost pass through.

If you have any questions regarding this submission, please contact Alexis van der Weyden on 9290 8460 or Anna Brakey on 9290 8438.

Yours sincerely



Peter J. Boxall AO
Chairman

³ Discussion Paper: Renewable Energy Target Review, p21

⁴ Our determination allowed a 'catch-up' component following the Office of the Renewable Energy Regulator revising the STP for 2012.