



Major Energy Users Inc.

Climate Change Authority

Renewable Energy Target Review

**Discussion Paper and Draft
Recommendations**

Submission by

The Major Energy Users Inc

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Executive Summary

The Climate Change Authority (CCA) has a number of guiding principles that it must have regard for in relation to the renewable energy legislation. All of these are related to how the CCA will implement the requirements of the Law. The CCA has not addressed the fact that it does not have the responsibility or the mandate to expand on the legislation that it is responsible for administering. Therefore, for the draft recommendation to retain the current RET target in terms of the originally calculated GWh level despite the fact that by doing so will lead to a significant over-run of the 20% of generation from renewable sources and will impose a significant and unnecessary cost to all consumers, is outside the purview of the CCA.

What the CCA has not addressed is that the renewable energy legislation is already imposing considerable costs on electricity users and these costs have been widely documented, including in the MEU submission to the CCA Issues Paper. The rapidly rising costs of electricity are being addressed in a number of forums (eg Senate select committee and Productivity Commission) which are tasked with reducing the cost of electricity to all users.

Despite this aspect of all governments being extremely concerned with rising electricity prices, the CCA Discussion Paper and draft recommendations are focused on further increasing these prices; yet this issue is hardly addressed at all within the Discussion Paper. Instead the Discussion Paper seems content with increasing the amount of renewable energy to be provided by more than was the target of the Government, widening its applicability and imposing the resultant increased and unnecessary costs on electricity consumers regardless of the overall environment for electricity and its prices.

The CCA report is somewhat dissembling in its impacts on consumers. By providing the impact of the RET proposals in terms of the retail cost of electricity to residential consumers, it tends to hide the real impacts that larger electricity users will see. This is an important issue as only some 30% of electricity use is by residential consumers and the remaining 70% consumed by users with much larger electricity demands. The financial impact on these larger users is overlooked and has become a significant element of their energy costs.

The CCA discussion paper also does not recognise there are many other cost imposts related to carbon emission reduction (many of which are duplicative) and by doing so the CCA conceals the true impact of the various and cumulative policies related to achieving carbon emission reductions.

1. Introduction

1.1 A general view of the CCA draft recommendation

In its response to the Climate Change Authority (CCA), the Major Energy Users (MEU) provided considerable information about the electricity market as a whole and the way costs for the supply of electricity have been rapidly increasing in the past 5-6 years; the cost of energy (which traditionally provided a competitive advantage to Australian business) has now increased to such an extent that it has become a competitive disadvantage factor for Australian business. The MEU response highlighted that this loss of competitive advantage was attributable to a number of causes, viz:

- Massively increasing delivery (network) charges
- Increases in electricity market management
- The cost impact of the plethora of State and Federal energy efficiency and carbon reduction schemes of which there are nearly 300
- The introduction and expansion of the renewable energy target scheme (RET)
- The introduction of a price on carbon emissions from electricity generation

In contrast, the price for wholesale electricity has remained relatively static for a decade – the only element of the electricity supply chain that has not increased in price at all. On the other hand, the costs of administration and compliance by businesses in Australia have escalated.

Despite the evidence of such large cost imposts on electricity usage, the CCA draft recommendations are seeking to further exacerbate the loss of this competitive advantage by proposing to increase the coverage and extent of the RET scheme, far exceeding the original policy intent of the scheme.

The stated government policy was that 20% of the electricity used in 2010 would be generated from renewable sources. To achieve this, a premium (effectively a large subsidy) would be paid for renewably generated electricity and this premium would be a levy on electricity usage. It is now forecast that in the light of current energy market and conditions, the amount of electricity from renewable sources is likely to exceed 25% of electricity used in 2020. Despite this indication, the CCA draft recommendations will effectively result in further increasing this percentage.

It appears that the CCA, rather than recognising that the current policy settings are already likely to cause unnecessary additional cost imposts and overshoot the stated policy target, is now seeking to further increase the overall amount of electricity generated from renewable sources beyond the original policy target.

There is no doubt that the government, the Australian business community and householders are all very concerned at the high costs for electricity and the fact that these costs are still sharply increasing. In its response to the Issues Paper the MEU provided a quote from the draft Energy White Paper regarding the costs of energy

“Energy is fundamental to our modern economy and society, and access to secure, reliable **and competitively priced energy has been a cornerstone of Australia’s economic and social development.** In this context, it is critical that energy policy continues to strike an appropriate balance in delivering energy security, facilitating economic development and meeting clean energy goals.” (DEWP page ix, emphasis added)

This view is reinforced, using different words, in the final version of the Energy White Paper 2012:

“Rising energy costs are affecting the costs of living of many Australian households and the competitiveness of Australian firms. In particular, retail electricity costs have increased on average by around 40% in the past three years, and by well over 50% in some regions. Wholesale energy costs for large users have also risen. Increases of that size are unsustainable.” (EWP 2012, page xii)

The outcome of the high (and increasing) electricity costs is causing considerable harm, especially to manufacturing and to low income households. There are a number of actions that government is taking to ameliorate the current unacceptable high costs for electricity yet the draft recommendations from the CCA will negate all the policy and economic regulatory changes in train by sharply increasing energy costs in favour of raising the bar on the renewable energy target. The economic and social consequences appear to have been totally ignored in light of the draft decision notwithstanding comments expressing concerns about rising energy costs.

The CCA acknowledges that the combination of the price on carbon and the RET will cause harm to consumers in the short term

“[I]n the presence of a carbon price, the RET is likely to increase the short-term cost of achieving the emissions reduction target. This is because it mandates the type of abatement that has to occur. While the RET will, in general, promote the least cost renewable energy generation, it nonetheless mandates that abatement must come from renewable energy regardless of whether it is the cheapest form of abatement across the economy in the short-term.” (CCA page 30)

Despite this concern, the CCA persists in recommending that the scheme be effectively expanded with the LRET (in GWh) being unchanged and the SRES

remaining uncapped. It would seem that the CCA considers that short term pain is the preferred path. What the CCA does not recognise is that this unnecessary short term pain will drive further reductions in electricity demand as already stressed industrial facilities cease operation.

The CCA points out the Productivity Commission is of the view that a RET scheme is not the most cost effective method of achieving carbon emission reductions, yet despite this the CCA effectively seeks to increase the amount of the RET.

The CCA should also take note of the Energy White Paper 2012 which states:

“Governments at all levels need to embrace key reforms to improve market and regulatory efficiencies, promote competition and innovation and eliminate inefficient policies that impose unnecessary costs on consumers.” (EWP 2012 page xiii)

The MEU is concerned that there has been no economy wide analysis to identify if the draft recommendations will result in unintended consequences to the nation as a whole, and cause wider harm.

1.2 The concept of the renewable energy target

In its response to the Issues Paper, the MEU highlighted that the policy behind the Act to implement the renewable energy target was that the target was to achieve 20% of energy used in 2020 from renewable sources. The MEU provided quotes from the Act and the Minister’s second reading speech which demonstrated this.

In its Discussion Paper the CCA makes only one reference to the Ministers’ second reading speeches¹ and this was in relation to the original Act being designed to reduce greenhouse gas emissions (amongst other goals). Despite the MEU highlighting that the second reading speech by Minister Combet stating that the target was to be 20%, the CCA has conveniently overlooked this aspect in its discussion as to whether the GWh target should be reduced to match the 20% target.

The Discussion Paper in relation to the 20% target or fixed GWh debate highlights there are three main views put by stakeholders:

1. The GWh target should be reduced to reflect realities of lower electricity consumption in 2020 than was forecast
2. The current GWh target should remain
3. The target should be increased

¹ Second reading speeches are intended to provide the rationale behind Acts so that the intent of the legislation can be understood and what the Act is intended to achieve

The views espoused by each group reflect some interesting segmentation. Group 1 is primarily represented by those having to pay the RET costs, Group 2 is represented by those seeking to invest in renewable generation and wanting “less uncertainty” and Group 3 is represented by organisations which consider less emissions is better regardless of the cost to the nation and those which benefit from increased renewable generation. Those not paying the cost of the RET are quite content with changes that increase the costs to those having to pay – a comfortable position to be.

Those paying the cost see that it is important that the intent of the policy should apply so that the costs they incur are minimised to a level which just achieves the policy intent. This is not an unreasonable view.

The stakeholders in the second group state that there is a need for certainty to assist in their investments. This is not unreasonable from their point of view, but those having to pay for the RET also seek certainty that they are not being required to pay for more than the minimum needed to achieve the policy goal – this is also a form of certainty that governments will not increase costs more than is required to meet the policy target. This aspect of regulatory certainty for those paying has been totally overlooked by the CCA.

The CCA Discussion Paper points out that the Tambling Review of the MRET was that targets should be expressed in terms of GWh (as recommended by the Tambling review) rather than a percentage. The MEU agrees with this as having a GWh target is more readily understood and managed. However, the Tambling Review did not have access to facts that showed the forecasts of future consumption were to be so grossly different to those used when the GWh target was established. As J M Keynes is quoted as saying²:

“When my information changes, I alter my conclusions. What do you do, sir?”

In this regard, the MEU asks the rhetoric question – if the forecast demand was significantly higher than the forecast used to establish the GWh target (such that the outcome would have been much lower than 20%, would the CCA recommend that the GWh target remain unchanged. The MEU considers that the CCA would recommend an increase in the GWh target so that the intent of the legislation (ie 20% of generation from renewables) would be achieved. In fact, retaining the current GWh target will result in more than 20% of generation from renewable sources and this will impose increased and unnecessary costs on electricity consumers.

The CCA Discussion Paper points out there is a nation wide benefit of a saving of some \$4.4Bn by adjusting the target to reflect the policy intent of the 20% or

² Reply to a criticism during the [Great Depression](#) of having changed his position on monetary policy, as quoted in *A Treatise of Melancholie* (1940) by Timothie Bright, page 24.

generation from renewables by 2020 – this is indeed a large benefit that is being foregone as a result of the CCA draft recommendation. The CCA points out that as a result more carbon emissions would eventuate compared to those released under the base case scenario but it fails to point out that the cost to the nation for avoiding these emissions using the RET scheme would be some \$47/t³. There is little doubt that this cost is considerably higher than that which would be achieved using a more efficient method of carbon emission reduction.

The failure by the CCA to carry out such comparative costs to assess the impact of its draft recommendations is concerning and seems to indicate a built in bias towards enhancing the amount of renewable generation.

1.3 The RET and a price on carbon

The MEU notes that the Discussion Paper highlights that the combination of the RET and the price on carbon will

“... in the presence of a carbon price, the RET is likely to increase the short-term cost of achieving the emissions reduction target. This is because it mandates the type of abatement that has to occur ... In modelling commissioned for this review, SKM MMA found that the additional reductions in greenhouse gas emissions driven by the RET on top of the abatement already driven by the carbon price cost, on average, an additional \$36 per tonne.” (CCA page 30)

The MEU recognises that the decision to have both a price on carbon and a RET was made by government, but there is doubt that in making the decision, government was fully aware of the full impact that this decision would have on consumers. The MEU notes that the Energy White Paper 2012 does recognise that there is a real concern in government at the massive increases that have occurred in the cost of electricity in recent years.

With this in mind, the CCA does have a responsibility to advise government that the cumulative effect of both the RET and a price on carbon will continue to increase the cost of electricity to all consumers and will have severe economic and social consequences.

The Discussion Paper asserts that the cost of the RET certificates will fall as a result of the imposition of a price on carbon but that this will occur in the future. The MEU has real concerns that imposing higher costs at a time when there is undeniable stress as a result of high electricity prices that significant harm will be visited on both trade exposed industry as well as vulnerable consumers.

³ This is \$4.4 Bn to avoid 93.6 Mt carbon emissions (see table 1 SKM MMA Discussion Paper on modelling)

1.4 A general view of the quantified effects of the draft recommendations

The CCA draft recommendations are somewhat misleading in their assessments, focusing on the impact on total delivered costs of electricity. Accepting the CCA modelling at face value implies that the recommendations will increase costs to consumers but that the cost premium is not large. This focus addresses costs where network charges are a large proportion of the cost of delivered electricity and therefore the increased RET costs become a smaller percentage of the total delivered cost.

In contrast the MEU points out that the impacts are considerable to large energy users where networks costs are a smaller element of the total delivered costs. To overcome this distortion, the MEU looks at the costs of LRET and SRES against the cost of electricity as a commodity and this provides a totally different view on the impacts of the RET scheme.

For example, the cumulative cost impost of LRET and SRES on consumers in 2012 was \$12-13/MWh. The time weighted spot price for electricity in NSW will average about \$41-43/MWh inclusive of carbon for half the year⁴. This means that the impost of the RET related to the purchase of electricity was some 30%.

As the bulk of electricity is used by industry (about 30% only is used for residential purposes) to relate the cost of RET as a proportion of household electricity usage is quite distortionary.

Continuing to base a comparison on a large electricity user in NSW, a typical breakdown would be 50% for the commodity, 40% for network charges and 10% for LRET and SRES, implying that the RET charge is over 20% of the cost of the commodity and 10% of the total delivered cost.

The impact of the RET on electricity costs is considerably more than the costs implied by the SKM-MMA modelling which compares costs for residential users. In table 4, the impact of no RET on retail prices are implied to be 4.2% of a household bill (this is the same percentage as seen in table 3 implying that table 3 relates to residential prices) yet for a large user of electricity the saving in 2012 would have been at least 10% of the total bill and 20% against the cost of electricity as a commodity.

In its response to the Issues paper, the MEU noted that renewable energy generation (especially that which is intermittent) imposes considerable costs to the networks to address both the increase congestion caused and the expansion of the network itself to accommodate the increased number of sources of generation and provision of capacity that is significantly under utilised, adds considerably to the indirect costs of renewable energy. Because

⁴ In contrast a contract cost of electricity as a commodity in NSW for 2012 was about \$45/MWh (exclusive of carbon) for a continuous user

these costs have not been included in the modelling (which only addresses direct costs), the modelling provides an understatement of the true costs involved.

The conclusions drawn by CCA from the incomplete modelling are therefore quite distortionary and not representative of the real costs to the wider economy when it is realised that some 70% of the electricity used would attract a much higher cost of the RET as a proportion of their total bill.

1.4 Quantification of effects

The MEU is also concerned at the approach used to quantify the long term effects of price differentials. The use of a net present value (NPV) approach can be useful but there is a need to clarify the assumptions. In this case SKM-MMA used a discount rate of 7% which, in the energy markets is a rather low rate where rates of 8-10% are more common⁵. This higher rate is in keeping with the 10 year bond rate (commonly used as a risk free rate) which averages some 6% over the long term.

The use of an artificially low discount rate tends to conceal the fact that much of the differential between the base case and the various “core cases” occurs in the early years of the RET

For example, figure 26 (revised in the corrigendum) shows the relative movements of the wholesale and retail prices of the no RET case compared to the reference case 1 (existing LRET target of 41,000 GWh) with a significant reduction in cost pending an upturn caused by the use of the “Treasury Core Policy” carbon price in 2023.

⁵ Competitive business tends to use an even higher discount rate than that used in the electricity market, often exceeding 15%

Figure 26 Change in wholesale and retail prices – no RET compared with reference case 1 (\$/MWh)*



If a higher discount rate was used, then the NPV of the no RET case would be considerably higher than implied by the SKM-MMA modelling as the ameliorating effects of the higher prices caused by the higher carbon price after 2023 would be negligible. It is quite clear that some basic sensitivity modelling should be undertaken with a (higher) discount rate that is more reflective of the actual rates used in the electricity market.

As noted in section 1.2, the impacts for larger users of electricity are much greater than implied by the NPV assessments provided in tables 3 and 4. The MEU notes that the impacts would be much greater if the tables quantified the impacts on larger users of electricity using a higher and more realistic discount rate.

1.5 The LRET and SRES

The CCA draft recommendations are that the LRET and the SRES should continue to be separate and that the LRET target should be 41,000 GWh in 2020. The implication of this decision is that the SRES would provide some 4,000 GWh by 2020.

The decision to separate the large renewable generation from the small renewable generation is supported on the pragmatic basis that when the two were combined there were a number of quite unintended consequences that created considerable harm to providers of large renewable generation which would have resulted in the 20% in the 2020 policy target possibly not being achieved.

As discussed in section 1.2, the MEU considers that the policy requires that the LRET and SRES should, when combined, achieve 20% in 2020, and not more.

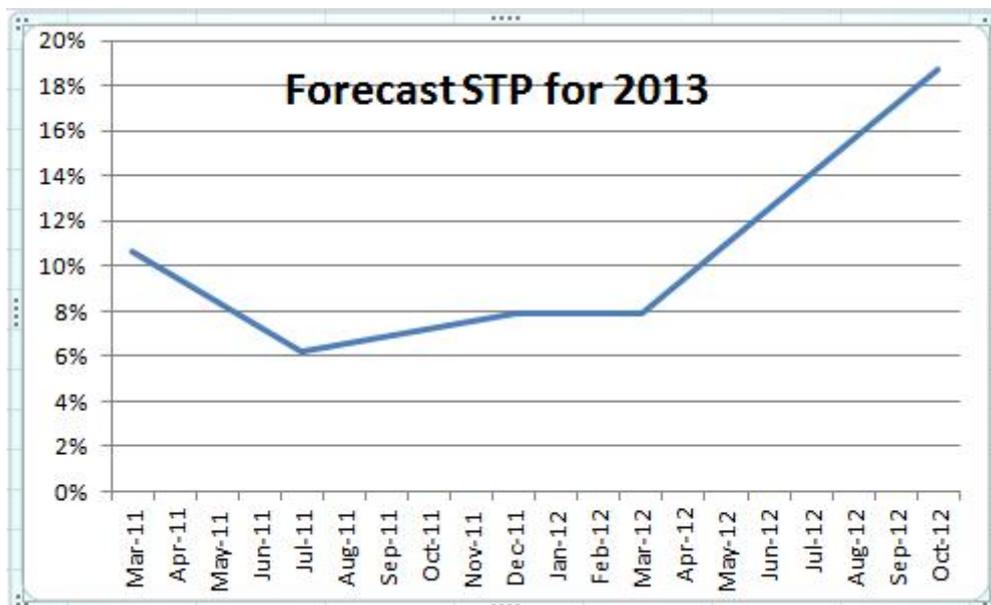
The CCA advises (Discussion Paper page 61) it expects that the SRES will provide some 11,000 GWh – this is nearly three times the assumed allowance of 4,000 GWh assumed for the nominal SRES target. In fact, at the present penetration rate of rooftop solar PV installations, it is possible that the nominal 4,000 GWh for the SRES will be entirely provided by rooftop solar PV installations. To this end, the MEU sees that just as the LRET target is capped, so too must the SRES be capped. If the SRES remains uncapped, then there is a high likelihood that the 20% target will be easily exceeded – and any exceeding of the target will be at an unnecessary cost to consumers.

The CCA should therefore recommend one of two alternatives to capping LRET and leaving SRES uncapped.

1. SRES must be capped – this is the preferred position of MEU. Capping SRES removes the possibility that the 20% policy target will be exceeded. Leaving the SRES uncapped has the potential for the SRES to significantly increase costs to consumers⁶
2. SRES remain uncapped and the LRET target be adjusted to reflect the SRES impact on the achievement of the policy target of 20%. This means that if the SRES under-runs its share of the policy target then the LRET can be increased to ensure the policy target is achieved.

It is only by one of these two approaches that the policy target can be achieved. Under the uncapped approach for SRES, the Small scale Technology Percentage (STP) used to set the SRES impost on consumers, exhibits significant volatility as the following chart shows.

⁶ For example, in 2012, the STP initially was set



Source: Office of the Renewable Energy Regulator

In contrast the setting of the Renewable Power Percentage (RPP) is much less volatile due to it being calculated against a cap.

The importance of the cap cannot be overstated. Just as the CCA opines that for the sake of investment, regulatory certainty is maintained, so is regulatory certainty required by those who have to pay the cost of the renewable charge. To have the SRES forecasts vary between 6% and 18% for the same year creates considerable uncertainty for consumers and difficulty in forecasts future costs, especially for large energy users.

There is no doubt that the SRES has to be capped so that there is greater certainty of future costs for consumers.

1.6 Impact of transaction costs

Another distortion arising from the CCA assessments is that the outcomes of the modelling totally exclude the impacts of the transaction costs that are essential to the imposition of the RET. In this regard, the MEU is aware that transaction costs associated with the provision and application of the LRET and SRES are not just those of the CCA and the Office of the Renewable Energy Regulator (ORER). Costs are also incurred by retailers in the accessing certificates and billing, but even more so they are incurred by the energy users themselves.

No attempt has been made to assess the impact of the draft recommendations of the many transaction costs that are inherent in the entire RET process.

1.7 Self generation

In particular, the MEU notes that the draft recommendations include the excising of exemptions for RET liability for self generation. The argument provided by CCA regarding self generation centres on the concern that there appears to be no strong arguments that underpin the decision to excise self generation from RET liability.

The CCA expounds greatly on the need for consistency in approach to minimise regulatory risk and argues that this is the main driver as to reject the views of stakeholders on reducing the GWh target for renewable generation to reflect the significant reduction in the forecast of electricity usage by 2020. Yet it uses the reverse argument to support its recommendation to remove the exemption of the RET liability for self generation.

In part, the reasoning for having such an exemption would be associated with the challenges faced in the transaction costs, including the monitoring and policing of the requirement. The draft recommendation makes an implicit assumption that its recommendation can be readily implemented. This is indeed a bold assumption. The CCA however does not explain how the excising of the exemption would impact a raft of many options that a self generator might undertake – actions such as changing current generation capacity within an existing self generation plant when such change is integral (eg using waste heat to generate steam to drive a new steam turbine generator – does the new steam turbine generator incur a RET liability even though it is using waste heat from an existing plant?). Is replacement or refurbishment which leads to increased output exempt? The MEU sees that if the recommendation is implemented, then there will need to be an extensive set of rules developed to address the many and varied options that might eventuate.

Self generation is most frequently associated with multiple uses of the output of the generation plant and can be closely integrated into manufacturing processes. This then raises the challenge of determining where and how the RET would be imposed because in many cases the electricity generated is not measured as it is used directly in the manufacturing process and therefore the liability would be difficult to calculate. This increases the transaction costs for the energy user and those of the ORER which would have to monitor and police the requirements.

Self generation is most commonly focused on maximising the efficiency of conversion of the fuel used⁷ (thereby reducing carbon emissions) and maximising efficiency of energy use is a stated policy of all State and Federal governments. Applying the RET to self generation will make such projects less commercially viable (even non-viable) and perversely reduce the ability of enterprises implementing actions to achieve what the entire process of

⁷ Unless this is achieved, self generation is usually not financially viable

efficiency targets and carbon emission reduction. Therefore applying the RET to self generation is a self defeating exercise.

Further, whilst it is most efficient to maximise the generation of electricity and generation of high quality steam, applying the RET to electricity generation would have the perverse driver of changing the mix of outputs to reduce electricity production to avoid RET liabilities. This could be achieved by increasing steam production and using the steam to replace electricity by use of steam turbine drivers. This is less thermally efficient and not in the interests of increased efficiency.

The draft recommendation makes no reference to imposing this self generation requirement on portable generation plant and the implication is that this would continue to be exempt. Whilst the current exemption covers all self generation, the recommendation will require clarification to identify which self generation will continue to be exempt. At face value, introducing such rules will result in further discrimination. Even the current 1 Km rule Sec 31(2)(b)(i) is discriminatory as many manufacturing facilities are geographically larger than 1 Km in dimension and therefore to benefit from the self generation exemption, generated power must be constrained to be used within this distance, even though a rational assessment is that this is an unnecessary and arbitrary control which bears little relationship with reality. Commonsense would suggest that the usage should be within the same facility.

The CCA notes that the amount of self generation is a very small percentage of the overall amount of electricity generated and used. With this in mind, it would appear that the transaction and other costs that such an imposition as the draft recommendation would make, is unlikely to deliver a net benefit. Unfortunately the CCA fails to recognise the full impacts and ultimate complexity of its draft proposals and relies on theoretical assumptions and views in the development of its draft recommendation.

1.8 The impact of the many other schemes

In the Discussion Paper the CCA makes reference to the impact of the introduction of the price on carbon emissions and includes this in its modelling. What is absent is any assessment of the impact of the many other (State based) energy efficiency and carbon emission reduction schemes that are related and are seeking to achieve the same outcome as the RET.

For example, the CCA Discussion Paper recognises that the RET scheme does support the continued introduction of small residential rooftop PV generation via the SRES. Concurrently the state based feed-in tariffs also provide financial support for such schemes. This means that the RET is being duplicated and this duplication becomes an increased cost to all electricity users. Whilst it is accepted that the CCA has no authority over the schemes generated in each State, it can recommend that the duplications caused are increasing costs to

consumers unnecessarily and that better coordination of these State based schemes is required with the national schemes such as the RET.

1.9 Definitions of renewable energy

The Discussion Paper addresses the issue of what should constitute an “eligible renewable energy source” of renewable fuel and recommends there be no change.

In its response to the Issues Paper, the MEU provided reasoning for expanding “eligible fuels” to include waste materials (such as wood waste that has no commercial value) just as coal mine gas is considered to be an eligible fuel.

As the intent of the RET legislation is to encourage greater use of renewable energy and thereby reduce the amount of carbon emissions through greater thermal efficiency, there is a strong and logical argument that other means of reducing carbon emissions such as through cogeneration and tri-generation where electricity steam and hot air for drying are all produced.

It is also noted that solar hot water heating is a permitted under SRES so therefore there is a logical argument to extend this to include all solar thermal applications so that solar thermal should be recognised as a renewable source just as renewable electricity generation.

The MEU is concerned that the CCA has not addressed these issues sufficiently well and as a result has created unnecessary boundaries to its investigations to ensure that the most efficient methods for providing renewable generation are able to be implemented.

By enforcement of somewhat inconsistent and arbitrary rules, the current approach to the recognition of renewable energy sources has unnecessarily increased the costs of providing renewable energy by the use of such exclusions.

1.10 The structure of this response

The above sections provide an overview the MEU’s major concerns with the Discussion Paper and the draft recommendations.

In the following section, the MEU addresses each of the draft recommendations provided in the Discussion Paper. The reasons behind the MEU responses to the questions are based on the foregoing commentary

2. Responses to CCA draft recommendations

| # | CCA Draft recommendation | |
|---|---|---|
| 1 | <p>The preliminary view of the Authority is that the frequency of scheduled scheme reviews be amended from every two years to every four years, so that the next review would be in 2016.</p> | <p>It must be recognised that the RET imposes considerable costs on electricity consumers. As a result there is a need to continually monitor the impact of the RET to ensure that there are not unintended consequences and if the market is changing which would result in necessary changes to retain the basic concept that underpins the legislation.</p> <p>This means there is a need to ensure that reviews are at sufficient frequency to identify if the costs and other market changes have occurred that warrant adjustment of the RET settings.</p> <p>The MEU is of the view that a four year break between reviews is too long and that the current biennial cycle should be retained. At most the time between reviews should not exceed 3 years.</p> |
| 2 | <p>The preliminary view of the Authority is that the form of the target should continue to be expressed in legislation in terms of a fixed gigawatt hour level.</p> | <p>The MEU accepts the pragmatism that setting targets in terms of GWh levels.</p> |
| 3 | <p>The preliminary view of the Authority is that the existing large-scale renewable target of 41 000 GWh and interim targets should be maintained in their current form.</p> | |
| 4 | <p>The preliminary view of the Authority is that the Renewable Energy Target Review in 2016 is an appropriate time to consider adjusting the targets beyond 2020 in light of the</p> | <p>The MEU considers that each 2 years the GWh targets should be recalculated and set to reflect the 20% policy setting. This means that the targets post 2020 should also reflect actual</p> |

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| | policy and economic conditions prevailing at that time | consumption rather than being inflated/under-inflated by over/under estimated forecasts of consumption |
| 5 | The preliminary view of the Authority is that the Small-scale Renewable Energy Scheme should remain separate to the Large-scale Renewable Energy Target | The MEU agrees – see section 1.5 above. However the MEU considers that the SRES should be capped and the reasons are explained in section 1.5. The total imposition of LRET and SRES should achieve no more than the 20% policy target |
| 6 | The Authority is continuing to consider whether the threshold for a small-scale solar PV system should be reduced below its current 100 kW limit to for example 10 kW | The MEU considers that the rules should not be technology specific and be non-discriminatory. On this basis the access to the SRES should be the same regardless of the technology. This creates consistency within the rules. |
| 7 | The preliminary view of the Authority is that the price cap remain fixed at \$40, to be reassessed once there is some experience of the scheme’s operation in the absence of the multiplier. | The MEU agrees that the price cap should not exceed \$40, and considers there is an argument that this value could be reduced. By reducing the value the massive growth that has been seen in the SRES could be constrained and so limit the risks faced by consumers due to the large cost the SRES has imposed. |
| 8 | The preliminary view of the Authority is that discounting (multipliers of less than one) of the number of certificates to be created in respect of each megawatt hour be provided to allow the Minister to control the cost of the SRES and ensure the subsidy level is appropriate | The MEU considers that the SRES should be capped. Equally, the MEU recognises that the SRES methodology for issuing certificates just the once for each SRES project is efficient from a transactional viewpoint. Rather than allowing the minister to set multipliers, there should be a set of criteria established which allows the ORER to establish the multipliers so that the requisite number of SRECs issued are capped. |
| 9 | The preliminary view of the Authority is that a decision to | |

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| | <p>apply or lower a discount factor should be applied in the following manner:</p> <ul style="list-style-type: none"> • The Minister should consider whether to lower the discount factor at the time the small-scale technology percentage is set each year. • The Minister’s decision should be based on, and proportional to, the following criteria: (i) any reduction in net system costs over the last year; (ii) electricity prices and whether the SRES contribution is greater than 1.5 per cent; and (iii) whether the average payback period of a small-scale system has fallen below ten years. • In making the decision, the Minister must obtain and take into consideration independent data surveys regarding the above criteria. The survey results should be published. <p>If the Minister decides to lower the discount factor, the Minister should provide reasons regarding the weighting of each element</p> | |
| 10 | <p>The preliminary view of the Authority is that the clearing house should be amended to a ‘deficit sales facility’ whereby new certificates may only be placed on the transfer list when the clearing house is in deficit</p> | |
| 11 | <p>The preliminary view of the Authority is that there should be no changes to the primary point of liability or the size</p> | |

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| | threshold for coverage of grids | |
| 12 | The preliminary view of the Authority is that large electricity consumers should be able to opt in to assume direct liability for Renewable Energy Target obligations. The Authority will consult further with participants and the Clean Energy Regulator on a workable model for opt-in arrangements | The MEU agrees with this preliminary view as it allows large users to manage their exposure to the RET in the most effective manner available to them. |
| 13 | The preliminary view of the Authority is that no changes be made regarding the process for calculating individual liability | The MEU agrees with this preliminary view |
| 14 | The preliminary view of the Authority is that the renewable power percentage and small-scale technology percentage should be required to be set prior to a compliance year, and preferably by 1 December of the preceding year | The MEU agrees with this preliminary view. Consumers have complained that their RET costs have changed considerably after the commencement of each year. Fixing the percentages by the end of November is a much preferred approach and even an earlier time would be preferable. |
| 15 | The preliminary view of the Authority is that the current arrangements for surrender of certificates (annual surrender for the Large-scale Renewable Energy Target; quarterly surrender for the Small-scale Renewable Energy Scheme) should be maintained | |
| 16 | The preliminary view of the Authority is that the current settings for the shortfall charges should be maintained. However, the level of the shortfall charge should be reconsidered by the Authority as part of its 2016 review of | The MEU is of the view that the shortfall charges are probably too high compared to the cost of LRECs and SRECs. On this basis there is no basis to increase the charge or even index it. The MEU accepts that the shortfall charge should be at a premium to the cost of certificates and questions the extent of |

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| | RET targets beyond 2020, or earlier if circumstances warrant it | the current premium as the penalty is excessive compared to the “crime”. |
| 17 | The preliminary view of the Authority is that the level of the emissions-intensive, trade-exposed exemption under the Renewable Energy Target should be considered by the Productivity Commission as part of its broader review of the carbon pricing mechanism Jobs and Competitiveness Program in 2014-15 | The MEU does not consider that there should be any reduction in the level of EITE exemption for the RET, but does agree that there should be consistency and alignment of time frames between the RET scheme and the price on carbon exemptions. |
| 18 | The preliminary view of the Authority is that Partial Exemption Certificates should be tradeable and made usable by any liable entity to reduce liable electricity acquisitions | The MEU agrees that partial exemption certificates should be tradeable, as this allows PEC holders to establish their most efficient practice to minimise their costs of the RET scheme. |
| 19 | The preliminary view of the Authority is that the Commonwealth Government should consider opportunities to align application processes and data requirements for the Jobs and Competitiveness Program and Renewable Energy Target as closely as possible | The MEU agrees with the preliminary view on the basis that alignment of processes in time provides consistency and reduces transaction costs. |
| 20 | The preliminary view of the Authority is that there is no strong case for the exemption from liability under the Renewable Energy Target for self-generation, and that the exemption should be removed for new self-generation (but retained for existing self-generators) | The MEU disagrees strongly with this preliminary view. Its reasoning for this position is outlined in more detail in section 1.7 above. |
| 21 | The preliminary view of the Authority is that no change is | |

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| | necessary to the accreditation process for LRET | |
| 22 | The preliminary view of the Authority is that existing arrangements for waste coal mine gas should be maintained | The MEU agrees with the preliminary view on the basis that coal mines should be encouraged to reduce methane emissions and convert this methane to power and a less severe emission gas. The MEU points out that the purpose of the RET is to reduce the severity of the impact of greenhouse gas emissions, and reduction of coal mine gas to a less severe form of greenhouse gas emission achieves this. |
| 23 | The preliminary view of the Authority is that there should be no change to the <i>REE Act</i> to allow for new waste coal mine gas to be eligible | The MEU queries the logic of this preliminary view as providing an incentive for converting waste mine gas to a less severe greenhouse gas could reduce the severity of overall greenhouse gas emissions and thereby achieve a lower greenhouse gas impact on a national basis |
| 24 | The preliminary view of the Authority is that without a clear process for ensuring that inclusion of wood waste from native forests would be ecologically sustainable that it should not be reintroduced to the RET | The MEU disagrees with this preliminary view, and refers to section 1.9 above. Not providing an incentive to utilise wood waste means that the wood waste will remain where it is. As methane is released as wood waste rots, not clearing the wood waste has a worse impact on the total greenhouse gas emissions than converting the wood waste to electricity and carbon dioxide. The MEU considers that the CCA should carry out more detailed investigation to demonstrate that allowing the inclusion of wood waste provides an overall benefit in terms of greenhouse gas emissions. |
| 25 | The preliminary view of the Authority is that new small scale technologies should be considered on a case by case basis for inclusion in the SRES | The MEU disagrees with this preliminary view. Already the SRES is imposing considerable cost to electricity consumers. Widening the scope of SRES eligibility will result in more SRECs |

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| | | being issued. The MEU considers that the SRES should be capped to prevent the explosion of unnecessary costs that the SRES has caused consumers. |
| 26 | The Authority notes that at this time there are no additional new small scale technologies that should be made eligible in the SRES | See comments to draft recommendation 25. The MEU agrees with this draft recommendation. |
| 27 | The preliminary view of the Authority is that existing arrangements for displacement technologies should be maintained | See comments to draft recommendation 25. The MEU agrees with this draft recommendation. |
| 28 | The preliminary view of the Authority is that no change should be made to the <i>REE Act</i> to allow additional displacement technologies | See comments to draft recommendation 25. The MEU agrees with this draft recommendation. |
| 29 | The preliminary view of the Authority is that no change should be made to the Renewable Energy Target framework to promote diversity | The MEU agrees with this preliminary view |
| 30 | The preliminary view of the Authority is that the small-scale accreditation system should be open to accreditation bodies other than the Clean Energy Council. Provision should be made for the Clean Energy Regulator to develop a regime to approve accreditation bodies | The MEU agrees with this preliminary view. Constraining accreditation to just one privately run organisation is not efficient or equitable, and might not be the most time efficient approach. |
| 31 | The preliminary view of the Authority is that wind and hydro | The MEU agrees with this preliminary view on the basis of |

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| | products should require accreditation to be eligible to create certificates | consistency |
| 32 | The preliminary view of the Authority is that the existing deeming arrangements remain appropriate | Not to have deeming for the SRES would impose considerably higher transaction costs and therefore the MEU agrees with the preliminary view. The MEU considers that there needs to be some formality in the development of the deeming provisions and that the way they are developed and the way the settings are reached should be transparent. |
| 33 | The Authority is continuing to consider whether, in conjunction with any reduction in the threshold for a small-scale solar photovoltaic system below 100 kilowatts, any shortening of the deeming period for larger sized units would be appropriate | |
| 34 | The preliminary view of the Authority is that the requirement to submit a solar water heater and small generation unit return should be removed from the <i>Renewable Energy (Electricity) Act 2000</i> (Cth) | If there is no benefit from the provision of a return, then the requirement should be removed – transaction costs are a significant element of the RET scheme and should be reduced wherever possible. The MEU agrees with this preliminary view |
| 35 | The preliminary view of the Authority is that the requirement to provide the out-of-pocket expense data for a small generation unit installation should be removed from the <i>Renewable Energy (Electricity) Act 2000</i> (Cth) | The MEU agrees with this preliminary view as it is inequitable and provides a mechanism for regulatory “gaming”. The MEU agrees with this preliminary view. |

