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Dear Mr Fraser

Bernie

RENEWABLE ENERGY TARGET REVIEW

We are the economic regulator of electricity retail prices for small customers in NSW that have not entered into a market contract with a licenced retailer. We are well placed to comment on energy policies, the implications they have for the cost of providing electricity to end-use customers and the impact that rising electricity prices have on households and small businesses in NSW.

The costs associated with complying with the Renewable Energy Target (RET) have contributed to recent increases in electricity prices, particularly from 1 July 2011. IPART estimates that in 2012/13 the cost of complying with the RET adds on average \$102, or 4.8%, to an indicative regulated electricity customer's bill in NSW.

IPART welcomes the opportunity to comment on the Climate Change Authority's review of the Renewable Energy Target (Issues Paper). The significant increases in the costs associated with complying with the RET and the introduction of the carbon price highlight the need to evaluate the efficiency and cost effectiveness of the Commonwealth Government's climate mitigation measures. This will ensure that its objectives are met at least possible cost to customers.

In our view, the introduction of the carbon price and a move towards an emission trading scheme (ETS) removes the need for the RET (and ultimately electricity customers) to continue to subsidise investment in the renewables sector. The RET is not complementary to the carbon price and does not cost effectively address any other significant market failure.

If the Commonwealth Government decides to retain the RET and require electricity customers to subsidise investment in renewable technologies, we recommend that it adopt a technology neutral approach. This can be achieved by removing the uncapped small scale renewable energy scheme (SRES) and other industry assistance measures to create a level playing field among renewable technologies and encourage the achievement of the RET at least cost. If the Commonwealth Government ultimately decides to retain a separate scheme

to subsidise investment in small scale technologies, we recommend it cap the amount of small scale certificates that retailers are required to purchase each year, and review the costs and benefits of the upfront deeming of certificates.

Our recommendations are detailed in the attached submission. If you have queries regarding this submission, please contact Alexis van der Weyden on [REDACTED] or Anna Brakey on [REDACTED]

Yours sincerely

A handwritten signature in blue ink, appearing to read "Peter J. Boxall".

Peter J. Boxall AO
Chairman



Independent Pricing and Regulatory Tribunal

Renewable Energy Target Review

**IPART's submission to the Climate Change
Authority**

Electricity
September 2012

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Contents

1	Overview	1
2	Improving the package of climate change mitigation measures	3
3	Improving the design and operation of the RET if it is retained	6
3.1	Removing the objective of reducing greenhouse emissions	7
3.2	Removing the SRES and creating a level playing field among technologies	7
3.3	Including only genuine renewable generation in the RET	10
3.4	Reducing the RET target to account for partial exemptions provided to emission intensive trade exposed industries	11
3.5	Bringing forward the release of the binding liabilities	12
3.6	Improving the information available in relation to costs and benefits of the annual targets under the RET	12
4	Improving the design and operation of the SRES if it is retained	14
4.1	Eliminating the Solar Credits Multiplier	14
4.2	Removing the uncapped nature of the SRES	15
4.3	Reviewing the upfront deeming of certificates	15
4.4	Bringing forward the release of the binding liabilities	16

1 Overview

IPART welcomes the opportunity to comment on the Climate Change Authority's review of the Renewable Energy Target (Issues Paper).

We are the economic regulator of electricity retail prices for small customers in NSW that have not entered into a market contract with a licenced retailer. We are well placed to comment on energy policies, the implications they have for the cost of providing electricity to end-use customers and the impact that rising electricity prices have on households and small businesses in NSW.

The costs associated with complying with the Renewable Energy Target (RET) have contributed to recent increases in electricity prices, particularly from 1 July 2011. IPART estimates that in 2012/13 the cost of complying with the RET adds on average \$102, or 4.8%, to an indicative regulated electricity customer's bill in NSW.¹ This is significantly higher than was forecast when the RET scheme was amended in 2009 and 2010, and higher than the Australian Energy Market Commission's estimates referred to in the Issues Paper.²

The significant increases in the costs associated with complying with the RET and the introduction of the carbon price highlight the need to evaluate the efficiency and cost effectiveness of the Commonwealth Government's climate change mitigation measures. This will ensure that its objectives are met at least possible cost to customers.

In this context, the review of the RET also provides an opportunity to consider the multiple objectives that the Commonwealth Government pursues in relation to renewable energy and greenhouse gas reduction, the cost impact of these objectives and the best way to fund them. It is an opportunity to consider the regulatory settings that guide investment in renewable energy and low emission technologies, with the need to reach a more appropriate balance between the needs of investors and end-use customers.

In our view, the introduction of the carbon price and a move towards an emission trading scheme (ETS) removes the need for the RET (and ultimately electricity customers) to continue to subsidise investment in the renewables sector. The RET is not complementary to the carbon price and does not cost effectively address any other significant market failure.

¹ The LRET adds around \$38 to a typical regulated electricity bill in NSW, while the SRES adds around \$64 in 2012/13. This analysis assumes a customer consumes 7MWh per year.

² The AEMC estimates were made prior to large upward revisions to the binding liabilities under the small scale renewable energy scheme.

We do however recognise that significant investments, primarily in wind generation technologies, have been made on the expectation that subsidies through the RET would continue until 2030. If the RET is removed, consideration will need to be given to the necessary transitional support for existing and committed investments and how this would be reduced through time.

If the Commonwealth Government decides to retain the RET and require electricity customers to subsidise investment in renewable technologies, we recommend that it adopt a technology neutral approach. This can be achieved by removing the uncapped small scale renewable energy scheme (SRES) and other industry assistance measures³ to create a level playing field among renewable technologies and encourage the achievement of the RET at least cost. If the Commonwealth Government ultimately decides to retain a separate scheme to subsidise investment in small scale technologies, we recommend it cap the amount of small scale certificates that retailers are required to purchase each year and review the costs and benefits of the upfront deeming of certificates.

In this context, we recommend:

- 1 The Commonwealth Government should: 3
 - close the RET given that it is not complementary to the carbon price 3
 - appropriately compensate existing and committed investments adversely affected by the closure of the RET. 3

- 2 If the RET is retained its objectives should be amended to make explicit that it addresses industry assistance and not emission reductions (which are more efficiently addressed by the carbon price). We consider industry assistance is best provided transparently from government revenue, rather than through the RET and therefore electricity prices. 7

- 3 If the RET is retained the Commonwealth Government should: 7
 - merge the uncapped SRES with the LRET to create a single scheme that is technology neutral to create a level playing field among renewable technologies and encourage the achievement of the RET at least cost 7
 - avoid the use of multipliers and the creation of ‘phantom certificates’ for solar or any other technologies to ensure that electricity customers only pay for actual renewable generation 7
 - coordinate policies targeted at subsidising renewable energy with State governments to avoid the introduction of further industry assistance measures that may ‘crowd out’ more cost effective renewable technologies. 7

³ Such as closing the solar credits multiplier and working with State governments to phase out subsidised feed-in tariffs.

4	If the RET is retained the Commonwealth Government should ensure that electricity generated by non-renewable sources is not eligible to create certificates under the LRET.	10
5	If the RET is retained the Commonwealth Government should consider reducing the target in recognition of the growing number of exemptions provided to emission intensive trade exposed industries and the increasing cost this places on other electricity customers.	11
6	If the RET is retained the Clean Energy Regulator should be required to bring forward the release of the binding liabilities on retailers (RPPs)	12
7	If the RET is retained the Commonwealth Government should improve the availability of information in relation to the benefits and costs of the RET's annual targets. The Issues Paper understates the current costs to society and electricity customers of the RET.	12
8	If the SRES is retained the Commonwealth Government should eliminate the Solar Credits Multiplier.	14
9	If the SRES is retained the Commonwealth Government should cap the amount of small scale certificates that retailers are required to purchase each year.	15
10	If the SRES is retained the Commonwealth Government should review the cost and benefits of upfront deeming of certificates.	15
11	If the SRES is retained the Commonwealth Government should require the Clean Energy Regulator to bring forward its release of the binding liabilities on retailers under the SRES.	16

These recommendations are discussed in detail below.

2 Improving the package of climate change mitigation measures

Recommendation

- The Commonwealth Government should:
 - close the RET given that it is not complementary to the carbon price
 - appropriately compensate existing and committed investments adversely affected by the closure of the RET.

In recent years, the Commonwealth and State governments have introduced a number of policies designed to support renewable energy generation, reduce emissions from the energy sector (and wider economy) and reduce energy consumption. The most significant Commonwealth policy developments have been the introduction of and amendments to the RET.

These schemes were primarily introduced in the absence of a price on carbon. The absence of an economy wide signal of the social cost of carbon emissions was a significant market failure which prompted governments to devise a variety of other climate change mitigation measures. However, with a carbon price in place and a move to an ETS in 2015⁴, there are valid questions about the role and complementarity of existing schemes.

A carbon price and ETS are designed to achieve emissions reductions at least cost. It does this by sending a price signal about the cost of carbon emissions and leaving it to producers and consumers to develop the most cost-effective way to achieve the emissions reductions objectives. There is a risk that other climate change mitigation measures such as the RET may conflict with these national objectives for emissions reduction, increase emission reduction costs, duplicate effort and encourage double counting of emissions reduction.

We are concerned that many of these green schemes may be adding unnecessary costs to energy bills without necessarily addressing any market failure that will not be addressed by a carbon price or other policy measures⁵, and may be creating investment-distorting complexities in energy markets. We support COAG's commitment to review the current set of schemes, particularly those that are not complementary to the carbon price.

IPART has previously established a framework for considering the complementarity of other climate change mitigation schemes.⁶ This framework is based on the principles developed by COAG.

Under this framework, to be considered complementary to a carbon price, a mitigation program must either:

- ▼ Address a significant market failure or barrier that is either not adequately addressed by a carbon price or reduces the effectiveness of a carbon price.
- ▼ Address a significant market failure or barrier that is in a sector not covered by a carbon price (ie, agriculture in the initial years of the scheme and forestry excluding voluntary opt-ins to a carbon price).

⁴ In August 2012 the Commonwealth Government announced that from 2015 the ETS will be linked on an interim basis to the European Union's ETS. Details of the full linking arrangement will be agreed by mid- 2015.

⁵ Such as policies designed to overcome other market failures including informational barriers to reducing electricity consumption, or the under-provision of research, innovation and commercialisation of low-emissions technologies due to unpriced 'spillovers'.

⁶ IPART, *Final Report – Review of NSW Climate Change Mitigation Measures*, July 2009.

- ▼ Address a sector of the economy where price signals do not play a significant role in decision-making (eg, land use and planning).
- ▼ Have one or more non-abatement objectives that do not adversely affect the efficient operation of a carbon price.

Complementary climate change mitigation policies can play a useful role if they address a significant market failure not adequately addressed by a carbon price, or where price signals may not play a significant role in decision making. For instance, it is widely recognised that even with the introduction of a carbon price there are market failures associated with:

- ▼ the under-provision of research, innovation and commercialisation of new low-emission technologies⁷
- ▼ information failures that can act as a barrier to the take up of low emission or electricity savings measures that are cost effective.

Well targeted and efficient Government policies or schemes that are designed to address these market failures may place a useful role in achieving the emissions reduction objectives in the most cost effective way. For example, policies that provide public funding in recognition that private investors are not able to capture for themselves the full value of their research, innovation and commercialisation of technologies (unpriced 'spill-overs') and policies targeted at overcoming barriers to the take up of energy efficiency measures may assist in achieving our emissions reduction objectives at least cost. The Commonwealth Government has provided significant budget funding for the Clean Energy Finance Corporation⁸ (CEFC) and Australian Renewable Energy Agency (ARENA)⁹ to allow these agencies to provide industry assistance for new low emission technologies. Similarly, State Government policies - such as the NSW Home Power Savings Programme and the NSW Energy Savings Scheme - have been implemented to assist households and businesses to overcome the barriers to the take up of energy efficiency measures.

We consider that all subsidies should be actively monitored to ensure that they are efficient, effective and delivering value for money.

⁷ Ross Garnaut, *The Garnaut Climate Change Review – Final Report*, 2008 p 318; Productivity Commission, *What Role for Policies to Supplement an Emissions Trading Scheme*, Submission to the Garnaut Climate Change Review, p 19; IPART, *Review of NSW Climate Change Mitigation Measures*, May 2009, p 29.

⁸ The objective of the CEFC is to overcome capital market barriers that hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies. <http://www.cefcexpertreview.gov.au/content/Content.aspx?doc=thecefc.htm>

⁹ ARENA will be an independent statutory authority tasked with the objectives of improving the competitiveness of renewable energy technologies and increasing the supply of renewable energy in Australia. <http://www.ret.gov.au/energy/clean/arena/Pages/arena.aspx>

The RET, however, does not address these market failures. For example, the RET does not specifically support research, commercialisation and deployment of new low-emission technologies. To date, the vast majority of renewable technology investment under the RET (in terms of electricity generation capacity) originates from established technologies such as wind farms, and the RET excludes investment in non-renewable but low emission technologies. Further, the RET does not overcome the information failures that are recognised to act as a barrier to the take up of energy efficiency measures.

In addition, the RET promotes emissions reductions in the electricity sector by requiring investment in specific renewable technologies. Price signals (including signals about the cost of carbon emissions) play a significant role in investment decisions in the electricity sector, and as such the RET introduces market distortions in terms of overriding signals about the appropriate time to introduce low-emissions energy technologies. By doing this, it adversely interferes with the operation of the carbon price and ETS, ultimately increasing abatement costs.

For these reasons, we are of the view that the RET is not complementary to a 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. We recommend that the Commonwealth Government remove the RET.

However, we recognise that there are legacy issues in relation to investments made under the RET over the past ten years. We acknowledge that some large investments have been made on the expectation that the RET would continue until 2030. If the RET is removed, consideration will need to be given to the necessary transitional support for existing and committed investments and how this would be reduced through time.

3 Improving the design and operation of the RET if it is retained

If the Commonwealth Government decides to retain the RET and require electricity customers to subsidise investment in renewable technologies, there are a range of improvements that could be made. These improvements would enhance the transparency of the scheme, minimise market distortions (and the potential interference with the efficient operation of the carbon price and ETS), and minimise the costs to electricity customers.

These issues are discussed below.

3.1 Removing the objective of reducing greenhouse emissions

Recommendation

- 2 If the RET is retained its objectives should be amended to make explicit that it addresses industry assistance and not emission reductions (which are more efficiently addressed by the carbon price). We consider industry assistance is best provided transparently from government revenue, rather than through the RET and therefore electricity prices.

Since its introduction a range of other policy rationales have been put forward by stakeholders in support of the RET. For example, the Issues Paper seeks comment on whether the RET has driven investment in skills in Australia. We are of the view that electricity prices should not be used to fund investment in the renewables industry. Any funding directed to particular technologies on the basis of industry assistance should be provided transparently from government revenue, rather than through the RET and therefore electricity prices. This is particularly relevant given that the objectives of the CEFC and ARENA appear to position these agencies as the primary drivers of industry assistance for the renewables sector.

If the Commonwealth Government decides to retain the RET and subsidise investment in renewable technologies, we recommend its objectives be clarified to allow stakeholders to clearly understand the policy intent behind the scheme. At a minimum we recommend that the RET's objective of reducing emissions of greenhouse gases in the electricity sector be removed, given that the carbon price and ETS has as its primary objective the reduction of greenhouse gases, albeit at lower cost.

3.2 Removing the SRES and creating a level playing field among technologies

Recommendation

- 3 If the RET is retained the Commonwealth Government should:
 - merge the uncapped SRES with the LRET to create a single scheme that is technology neutral to create a level playing field among renewable technologies and encourage the achievement of the RET at least cost
 - avoid the use of multipliers and the creation of 'phantom certificates' for solar or any other technologies to ensure that electricity customers only pay for actual renewable generation
 - coordinate policies targeted at subsidising renewable energy with State governments to avoid the introduction of further industry assistance measures that may 'crowd out' more cost effective renewable technologies.

If the Commonwealth Government decides to retain the RET and requires electricity customers to subsidise investment in renewable technologies, the most cost effective way of doing this is to adopt a technology neutral approach, and let the market deliver the cheapest form of renewable generation. This involves removing the uncapped SRES and other industry assistance measures that favour investment in particular technologies such as solar to create a level playing field among renewable technologies and encourage the achievement of the RET at least cost.

At present, the split scheme favours particular technologies, which combined with other Commonwealth and State government incentives introduces distortions in the market by promoting expensive emissions abatement and relatively expensive renewable energy production. This results in prices paid by electricity customers being higher than necessary. The current policy settings have resulted in customers paying for the costs of generating renewable energy in 2012 equivalent to 33.1% of eligible sales under the LRET and the SRES.¹⁰

Importantly, the electricity actually generated from renewable sources will be significantly lower than what electricity customers are paying for. That is, while customers are paying for over 33% of electricity to be sourced from renewable technologies in 2012, the proportion of electricity actually being generated by renewable technologies under the mandatory schemes is likely to be around 10%. The large difference reflects the large upfront financial incentives provided to households to install small scale solar PV, including the Solar Credits Multiplier.¹¹

While these policy settings may contribute to other objectives, they have implications for the efficiency and cost effectiveness of the schemes. We consider industry assistance is best provided transparently from government revenue, rather than through electricity prices given the regressive nature of higher electricity prices. Further, we are concerned that many green schemes such as the RET are currently funded through electricity prices and therefore do not face the same scrutiny as schemes funded directly through government budgets. We consider that all subsidies should be actively monitored to ensure that they are efficient, effective and delivering value for money.

¹⁰ The Renewable Power Percentage for 2012 is 9.15% and the Small Scale Technology Percentage is 23.96%. Source: <http://www.orer.gov.au/Latest-Updates/2012/February/3>

¹¹ When a system is installed, certificates can be created up-front for 15 years of deemed renewable energy.

The Issues Paper notes that the RET was split into 2 schemes to limit the depressing effect that the large number of renewable certificates generated by small scale solar units (solar PV and solar hot water) was having on certificate prices. The depressed certificate price was seen as discouraging investment in large scale renewable projects such as wind farms. Had small scale solar been competing with large scale projects in terms of cost effectiveness, a depressed certificate price would not be a concern. Rather, it would reflect competition among technologies allowing the RET to be achieved at lower cost.

However, the large number of certificates created by small scale solar was a reflection of the considerable financial incentives provided to households rather than technologies competing on the basis of cost.¹² These financial incentives included generous feed in tariffs, upfront deeming of certificates (being allowed to surrender 15 years of certificates for generation upfront) and the solar credits multiplier¹³ that allowed significant numbers of ‘phantom credits’ to be created.

Many of the Commonwealth and State government financial incentives to install solar PV are being wound back. The NSW Government has closed the subsidised Solar Bonus Scheme and new solar customers can receive an unsubsidised feed in tariff from their retailer.¹⁴ Other states such as South Australia and Victoria have implemented similar policies with the Queensland Government currently considering the issue. If the Commonwealth Government eliminated the Solar Credits Multiplier, there will be little or no additional subsidies provided for new small scale solar installations (apart from the creation of 1 renewable energy certificate for each MWh produced), removing the primary reason for the splitting of the RET into 2 schemes. Competition between the technologies will be on the basis of cost, encouraging both efficient investment in renewable generation and market coordination about the appropriate time to introduce renewable technologies.

We support the immediate removal of the Solar Credits Multiplier and the elimination of the SRES, in essence, merging the 2 schemes to create a level playing field among the technologies. This will allow any renewable technology to contribute towards achieving the RET. A key element of this is eliminating the uncapped small scale scheme to ensure that customers are only required to pay for the efficient costs of achieving the original target (ie, 45,000GWh by 2020), rather than paying for more renewable electricity than was originally intended and is actually generated. If the SRES is retained, we have made further recommendations below on detailed aspects of the scheme.

¹² The Issues Paper also notes that the number of certificates created by small scale technologies by 2020 is now estimated to be more than the forecast made at the time of the splitting of the scheme (to exceed the ‘implicit target’ of 4,000GWh of small scale renewable generation).

¹³ The solar credits multiplier allows for the creation of ‘phantom’ renewable energy certificates. For a typical household in the Sydney area installing a solar PV unit, the credits multiplier provided households with an upfront rebate of over \$6,000.

¹⁴ This unsubsidised feed in tariff is likely to reflect the benefits to the retailer from avoiding the need to purchase electricity in the wholesale electricity.

This will require Commonwealth and State governments to coordinate policies targeted at subsidising renewable energy. If the RET is to be retained, Commonwealth and State governments should avoid the introduction of further industry assistance measures such as subsidised feed-in tariffs for new investment that may 'crowd out' more cost effective renewable technologies. One option is for the Climate Change Authority to adjust the subsidy available under the RET if State governments introduce or increase their subsidies available to new or existing investments.

The Issues Paper seeks comment on whether multipliers should be considered for other technologies. We are of the view that while multipliers may be an effective way of providing industry assistance and promoting the uptake of particular technologies, they are not consistent with creating a level playing field across technologies nor consistent with achieving renewable electricity generation at least cost to customers.

3.3 Including only genuine renewable generation in the RET

Recommendation

- 4 If the RET is retained the Commonwealth Government should ensure that electricity generated by non-renewable sources is not eligible to create certificates under the LRET.

On 7 February 2012, Commonwealth legislation was passed to allow waste coal mine generators to create Large Scale Certificates from 1 July 2012.¹⁵ The RET targets were increased to ensure that waste coal mine generators do not contribute to the 20% target for renewables in 2020 and displace 'genuine' renewable generation.

The Issues Paper seeks comment on whether additional capacity of waste coal mine gas should be included in the RET. The Issues Paper notes that the decision to allow existing waste coal mine gas based generation to create renewable certificates was to provide transitional assistance to these projects following the introduction of the carbon price and cessation of the NSW Greenhouse Gas Reduction Scheme (GGAS).

¹⁵ *Renewable Energy (Electricity) Amendment Regulations 2011* (Cth) (No.6).

Increasing the target to account for this additional generation will further contribute to electricity price increases for customers but arguably without making any contribution towards the objectives of the scheme. The Commonwealth Government should consider whether including existing and future waste coal mine generators in the LRET is consistent with the objectives of promoting renewable electricity generation. As outlined above, we are of the view that any funding directed to particular technologies on the basis of industry assistance should be provided transparently from government revenue, rather than through the RET and therefore electricity prices.

3.4 Reducing the RET target to account for partial exemptions provided to emission intensive trade exposed industries

Recommendation

- 5 If the RET is retained the Commonwealth Government should consider reducing the target in recognition of the growing number of exemptions provided to emission intensive trade exposed industries and the increasing cost this places on other electricity customers.

Certain emission intensive trade exposed industries can apply for partial exemptions from the RET. These exemptions were introduced to reduce the risk that emission intensive industries exposed to international markets relocate to countries lacking climate change mitigation policies.

The number of activities eligible for exemptions has increased considerably in recent years.¹⁶ As the overall RET target is kept constant, these exemptions raise the costs of complying with the scheme for all other customers, particularly as the exempted industries can be large users of electricity and account for a significant proportion of electricity use in Australia. To date, little analysis has been publicly provided on the impact of these exemptions including the costs and benefits to other electricity customers.

In recognition that the exemptions under the RET increases the costs to other customers, we recommend consideration be given to reducing the RET over time to account for the growing number of exemptions provided to emission intensive trade exposed industries. This will ensure that electricity customers that do not receive exemptions, including households and small businesses, are not required to pay electricity prices that are higher than they otherwise would be (ie, cover the entire cost of meeting the 20% target).

¹⁶ There have been 4 amendments to the *Renewable Energy (Electricity) Regulations 2001* in 2012 to exempt a further 14 production activities.

3.5 Bringing forward the release of the binding liabilities

Recommendation

- 6 If the RET is retained the Clean Energy Regulator should be required to bring forward the release of the binding liabilities on retailers (RPPs)

To provide greater certainty to market participants, we also recommend the Clean Energy Regulator bring forward its release of the binding liabilities (known as Renewable Power Percentages). This will allow market participants and regulators to understand the costs of complying with the RET before the start of the calendar year. At present they are released by 31 March of each calendar year (ie, the liabilities for 2012 are required to be published by 31 March 2012) meaning that retailers and regulators who may be setting prices from 1 January do not have a clear view of the costs of complying with the scheme before the calendar year.

3.6 Improving the information available in relation to costs and benefits of the annual targets under the RET

Recommendation

- 7 If the RET is retained the Commonwealth Government should improve the availability of information in relation to the benefits and costs of the RET's annual targets. The Issues Paper understates the current costs to society and electricity customers of the RET.

If the Commonwealth Government retains the RET, the level of the target and the cost to customers need to be considered. The Issues Paper seeks comment on the appropriateness of the annual targets under the RET and the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity.

The level of the targets through time 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 Climate Change Authority to provide clear analysis on the costs and benefits of the RET under a range of alternative annual targets. The RET represents a significant transfer of costs from renewable generators (including large scale wind and solar farms and households installing solar panels) to electricity customers. If the community is to provide comment on the merits of the scheme and the trade-offs involved in pursuing alternative targets, it is important to provide an accurate and transparent disclosure of the total costs to society and to individual electricity customers.

We are concerned that the costs of the RET under the current annual targets have been understated, both as part of the initial development and amendment of the policy and in the Issues Paper itself. Modelling for the Department of Climate Change and Energy Efficiency indicated that the RET would increase retail prices by around 3% over the period to 2020¹⁷, while the Issues Paper notes that the RET is likely to add around 2.3% to a residential retail bill in 2013/14. Further the Issues Paper notes that the total compliance costs (ie, cost to all customers) of the RET are estimated to be \$1.5bn in 2019/20.

We are concerned that these estimates do not provide a clear picture of the total costs of complying with the RET currently and the bill impacts for typical residential customers. Based on the liabilities or annual targets under the LRET and SRES, the total costs of complying with the RET in 2012 is around \$2.5bn.¹⁸ Retailers incur these additional costs in supplying electricity to customers and these costs must be passed on to consumers in the form of increased electricity prices, if the retailers are to remain financially viable. At a customer level, the RET adds \$102 or 4.8% to an indicative regulated retail customer bill in NSW in 2012/13. For customers with larger than average electricity usage the impact of the RET will be larger in dollar terms. The Climate Change Authority should seek updated information on the costs of the RET from the AEMC as its 2011 report understates the costs due to subsequent upward revisions to the retailers' obligations under the SRES.

We would also recommend the Climate Change Authority include discussion of the costs and benefits of increasing, or not increasing the target to account for certificates created by CEFC funded activities. The CCA raises this issue because certain technologies may receive additional funding through the CEFC potentially crowding out other investment. As a general principle, we are of the view that any funding directed to particular technologies on the basis of industry assistance should be provided transparently from government revenue, rather than through the RET and therefore electricity prices. However, we do not support increasing the target to account for investment funded through the CEFC.

¹⁷ MMA, *Benefits and Costs of the Expanded Renewable Energy Target*, January 2009, p 6.

¹⁸ Includes the cost of complying with the LRET of \$670m and the SRES of \$1.8bn based on the published RRP and STP for 2012 and a certificate price of \$40.

4 Improving the design and operation of the SRES if it is retained

If the Commonwealth Government decides to retain a separate scheme to subsidise investment in small scale technologies, there are a range of improvements that could be made that would minimise the market distortions resulting from the promotion of particular renewable technologies and minimise the costs to electricity customers.

The design of the SRES, combined with generous State and Territory Government financial incentives, has put the annual costs of complying with the SRES at almost twice that of the LRET. The costs of complying with the SRES were a driver of retail electricity price increases, particularly on 1 July 2011.

Even if the SRES continues to operate as a separate scheme, there are a number of aspects that could be improved.

4.1 Eliminating the Solar Credits Multiplier

Recommendation

- 8 If the SRES is retained the Commonwealth Government should eliminate the Solar Credits Multiplier.**

The Solar Credits Multiplier allows for the creation of 'phantom' renewable energy certificates. Under the Renewable Energy Target scheme, 1 certificate should represent 1 MWh of renewable energy generated. However, with the Solar Credits Multiplier, 2 certificates can currently be created for every 1MWh of small-scale solar electricity generated (this has been progressively reduced from a multiplier of 5). The retailers then have an obligation to buy these 'phantom' certificates and pass on these costs to customers. This means that customers need to pay for renewable energy that was not generated.

4.2 Removing the uncapped nature of the SRES

Recommendation

- 9 If the SRES is retained the Commonwealth Government should cap the amount of small scale certificates that retailers are required to purchase each year.

The SRES is a supply driven scheme under which retailers will need to buy all certificates created¹⁹ and there is no limit on the number of certificates that can be created. This has led to rapid increases in the number of certificates that retailers are required to purchase (above the original 'implicit target') and introduces a significant amount of uncertainty in relation to the cost of complying with the scheme. Attempts to forecast the uptake of small scale technologies were generally not successful²⁰, leading to the release of inaccurate forecasts of small scale technology certificate creation and the establishment of complicated 'catch-up' mechanism.

4.3 Reviewing the upfront deeming of certificates

Recommendation

- 10 If the SRES is retained the Commonwealth Government should review the cost and benefits of upfront deeming of certificates.

When a system is installed, certificates can be created up-front for 15 years of deemed renewable energy (in contrast to the creation of certificate under the LRET). While this makes the scheme simple in its administration, it introduces a disconnect between the timing of creating certificates and the generation of renewable energy, with current electricity customers paying today for renewable energy deemed to be generated over the next 15 years. Consideration needs to be given as to whether the benefits from administrative cost reductions exceed the distributional impacts on today's electricity customers.

¹⁹ ORER aims to set the binding liabilities (STPs) to clear the market of certificates.

²⁰ For example, the Office of the Renewable Energy Regulator forecast that 28 million certificates would be created in 2011. The actual number of certificates created was over 50 million, leading to a surplus of over 22 million certificates to be recovered in 2012.

4.4 Bringing forward the release of the binding liabilities

Recommendation

- 11 If the SRES is retained the Commonwealth Government should require the Clean Energy Regulator to bring forward its release of the binding liabilities on retailers under the SRES.

To provide greater certainty to market participants, we also recommend the Clean Energy Regulator bring forward its release of the binding liabilities (known as Small scale Technology Percentages) to allow market participants and regulators to understand the costs of complying with the SRES before the start of the calendar year. Delaying the release of these liabilities has not assisted in providing more accurate forecasts of the number of certificates likely to be created.