

# CLIMATE CHANGE AUTHORITY

## 2014 RENEWABLE ENERGY TARGET REVIEW

### SUMMARY

This is the Climate Change Authority's second review of the Renewable Energy Target (RET). The RET targets reductions in greenhouse gas emissions from the electricity sector and thereby contributes significantly to reducing Australia's overall emissions.

In its 2012 review of the RET, the Authority found that the RET was stimulating considerable investment in renewable energy and argued that a stable and predictable policy was essential to sustain this investment. It concluded that no major changes were warranted to the overall RET design, but suggested some minor operational changes.

The uncertain future of the Authority until recently has limited the time available to conduct this review. Largely for that reason, the Authority has focused on what, in its view, are the most important issues. The Authority has also drawn on both its 2012 Authority review, and on the review conducted this year by a panel headed by Mr Dick Warburton AO LVO.

#### The RET and Australia's emissions reduction goals

In 2010, when the Large-scale Renewable Energy Target (LRET) was set at 41,000 GWh, it was estimated that this contribution, with contributions from the Small-scale Renewable Energy Scheme (SRES) and other pre-existing renewables (notably hydro), would together represent at least 20 per cent of Australia's (then) projected total electricity demand in 2020. Given that electricity accounts for approximately one-third of Australia's emissions of greenhouse gases, renewable sources were seen as making a significant contribution to Australia's broader emissions reduction goals.

Reducing emissions in the electricity sector plays a pivotal role in climate change policies around the world. Unchecked climate change is widely seen as posing serious risks for the Australian community and its economy. Together with the broader international community, Australia has agreed to a goal of limiting global warming to no more than 2 degrees Celsius above pre-industrial levels to avoid the worst impacts of climate change. This requires concerted action by all countries—including Australia—to reduce their greenhouse gas emissions. The RET, as currently legislated, is a significant part of Australia's policy response to that challenge.

The RET arrangements were envisaged to deliver 'at least 20 per cent' of Australia's electricity from renewable sources by 2020 and are projected to reduce Australia's emissions by 58 million tonnes of carbon dioxide equivalent (Mt CO<sub>2</sub>-e) over 2015–20, and by much larger amounts in later periods.

The RET arrangements are not perfect but, in the Authority's view, they are effective in reducing emissions (at reasonable cost) in the centrally important electricity sector. Given the absence of effective alternative measures bearing upon this sector, the Authority does not favour any significant scaling back of the 2020 LRET target of 41,000 GWh.

#### Possible extension of end year for the Large-scale Renewable Energy Target

In its 2012 review, the Authority considered the feasibility of achieving the 2020 LRET target. It concluded that the task was challenging but could be met, provided there was ongoing confidence on the part of renewables investors and assuming that the carbon price remained in place. Since then, confidence in the industry has waned and now investment has tapered off, on the back of the erosion of bipartisan support, continuing uncertainty about possible changes and the repeal of the carbon price.

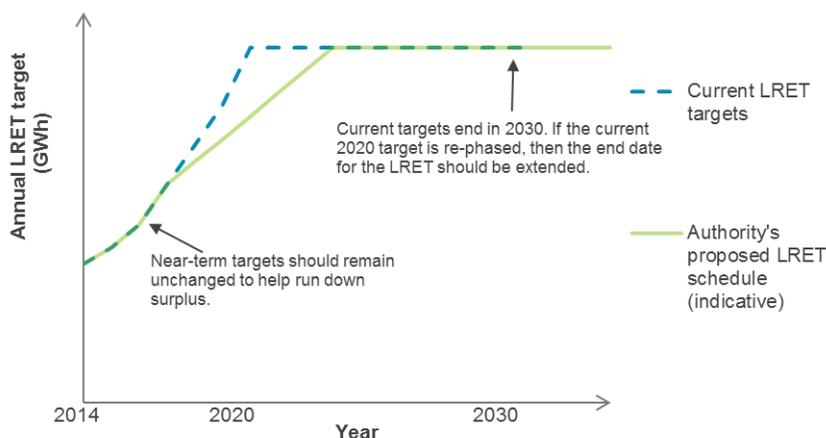
Confidence within the industry that bipartisan support for the LRET can be restored quickly in a convincing manner is essential to have a strong chance of achieving the 2020 goal of 41,000 GWh. At this time this is looking rather problematic.

Another change which has occurred since the 2012 review is that the projected demand for electricity in the National Electricity Market in 2020 has declined by about 16 per cent. This would imply a somewhat greater adjustment on the part of incumbent generators than was previously envisaged.

Having regard to these various changes—and to upholding the credibility of the present LRET target—the Authority recommends that the present target be preserved but the current 2020 timeframe for achieving it be extended by, say, up to three years (Figure 1). As discussed in the report, two consequential changes would flow from the adoption of this recommendation:

- the annual LRET targets should be re-phased after 2017
- to assist delayed projects to recoup their costs, the end date for the LRET would need to be extended by at least the same number of years as the 2020 target was deferred.

FIGURE 1 PROPOSED RE-PHASE FOR LRET TARGETS



Source: Climate Change Authority

### Exemptions

Exemptions from RET costs are provided to some business activities based on their overall emissions intensity, regardless of whether those emissions are related to electricity use. Providing assistance with electricity costs to businesses that are not particularly electricity intensive leads to anomalies and places greater costs onto non-exempt electricity users. If broadening of assistance is considered, it should be based on need, the best measure of which in this context is electricity intensity.

### The role of the RET after 2020

The challenges of climate change are ongoing and Australia will need to pursue policies capable of reducing its emissions well into future.

The government proposes to set Australia's post-2020 emissions reduction targets in the first half of 2015.

The Authority noted in its 2012 review that the RET was not a 'first best' approach to reducing emissions in the electricity sector. A more comprehensive approach that encouraged or discouraged

different types of generation on the basis of their emissions intensity would be better in this sector in the long term. In the absence of such an approach, however, the Authority believes that increases in, and extensions of, the existing RET targets should remain an option in the period beyond 2020, as should expanding arrangements to cover a wider set of technologies.

#### Rooftop solar under the Small-scale Renewable Energy Scheme

The small-scale solar photovoltaic (PV) industry has been very successful in installing rooftop solar systems for Australian households, community groups and small businesses. Assistance provided under the SRES has encouraged this growth but, as costs have fallen, the case for maintaining current levels of support has become less compelling. Some evidence also suggests that subsidising small-scale PV at these levels is a relatively expensive way of reducing emissions from the electricity sector.

That said, the cost impacts on electricity consumers are modest and the gradual phase-out of the scheme is to commence shortly. Any more rapid phase-out should be designed to avoid disruptive cycles in the industry.

# CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS	NUMBER	PAGE
Substantial reductions in electricity sector emissions over the coming decades—including through greater deployment of renewables—must be a key focus for Australia in playing its part in reducing global emissions and the risks of dangerous climate change.	C 1	25
The Renewable Energy Target arrangements are currently the primary policy instruments for electricity sector decarbonisation, and no more cost-effective and scalable measures are in prospect at this time. Their overall impacts on electricity consumers are quite modest, and are mitigated through the provision of targeted assistance.	C 2	29
If any further exemptions from electricity costs under the RET are to be granted, this should be on the basis of electricity intensity, rather than emissions intensity.	C 3	43
Subsidising household PV under the SRES is a relatively expensive way to reduce emissions in the electricity sector. The Authority, however, has not recommended any changes, largely because the SRES assistance will shortly begin to phase out, and the overall costs are relatively modest.	C 4	53
No changes should be made to the Renewable Energy Target framework to promote diversity of renewable technologies at this time.	C 5	55
In the interest of maintaining investor confidence in the industry, the frequency of statutory reviews of the RET should be changed from every two years to every four years. For the same reason, if bipartisan agreement were to be reached on any revisions to the current 2020 LRET target, those revised arrangements should be outside the scope of future reviews.	C 6	55

**RECOMMENDATIONS****NUMBER PAGE**

Given the sharp decline in investor confidence, the resulting slowdown in investment, and the further reduction in projected electricity demand, the government should:

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- defer the 2020 target for the LRET by, say, up to three years and
- extend the scheme as a whole by at least the same amount of time, with a view to providing sufficient time for projects to recover their costs.

Given the large overhang of certificates, there is no case to reduce the annual targets until after 2017.

Over the longer term increased recourse to renewables in electricity generation is essential to Australia's efforts to reduce its total greenhouse gas emissions. In the absence of effective alternatives, RET arrangements will have to carry much of this burden, so consideration should be given—at the appropriate time—to the nature and timeframe of possible RET arrangements in the post 2020 period. In particular, the government should consider increasing and extending targets, and expanding arrangements to cover a wider set of technologies.

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