PowerWater

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Anthea Harris
Chief Executive Officer
Climate Change Authority
Level 10, 90 Collins St
Melbourne

Dear Ms Harris

Re: Submission to Renewable Energy Target Review Issues Paper

Power and Water Corporation (PWC) welcomes the opportunity to make a submission to the Climate Change Authority's review of the Renewable Energy Target (RET) Review Issues Paper (Issues Paper). Given the developments in recent years in Australian Government climate change policy, in particular the implementation of a national carbon price, as well as the significant changes that have occurred in national electricity markets, this review of the RET is timely.

PWC supports measures to encourage deployment of renewable energy and clean energy technologies. PWC considers that the design of any such measure should focus on least-cost options as well as minimise administrative burdens. However, the most recent amendments to the design of the RET scheme do not adhere to these principles. In particular, the Small-scale Renewable Energy Scheme (SRES), in tandem with state feed-in tariffs, has proven to be administratively burdensome and costly not only for PWC but the Northern Territory more broadly.

The attached submission outlines PWC's views on key questions posed in the Issues Paper. In particular, PWC considers the most effective way to limit the costs of the RET while still achieving the overall objective would be to return to the design of the national expanded RET, before separation into the large and small-scale components occurred and without the Solar Credits multiplier. If the SRES were to continue, the submission contains suggestions on design options that could reduce the administrative and compliance costs currently associated with it. The submission also outlines possible perverse incentives created by the 100 megawatt liability threshold, and why this threshold may now be considered out of date.

Yours sincerely

Andrew Macrides
Managing Director

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eRET summary statement.	Power and Water supports the objectives of the Renewable Energy Target. Original implementation and administrative arrangements for the scheme were transparent, fair and equitable. Recent changes to the scheme including implementation and administration of solar credits, consequential splitting of the scheme and administration arrangements of the SRES has created onerous and costly outcomes. Power and Water supports a return to the national expanded RET settings.
Large-scale Renewable Energy Target	
Are the existing 41,000 GWh LRET 2020 target and the interim annual targets appropriate? What are the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity?	As above, Power and Water supports a return to the settings under the national expanded RET. However, in the absence of this, Power and Water supports maintaining the existing LRET target in the current scheme to maintain certainty for certificate prices and renewable energy large-scale investments.
Is the target trajectory driving sufficient investment in renewable energy capacity to meet the 2020 target? How much capacity is needed to meet the target? How much is currently committed? Has the LRET driven investment in skills that will assist Australia in the future?	The current trajectory does not drive investment in the Northern Territory. Historically, Power and Water has been able to meet its liability from 'NT RECs' whereas now Power and Water has to purchase these from southern sources. The LRET has not driven skills development in the NT.
In the context of other climate and renewable policies, is there a case for the target to continue to rise after 2020?	No. The effect of the carbon price ought to be assessed prior to any further adjustments to the eRET scheme. Treasury modelling indicates strong support for renewable energy deployment post-2020.
Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?	Yes. The gigawatt hour target should be fixed in five yearly increments, with adjustments for subsequent five year increments to ensure the overall % target is met.
Should the target be revised to reflect changes in energy forecasts? If so, how can this best be achieved – as a change in the fixed gigawatt hour target, or the creation of a moving target that automatically adjusts to annual energy forecasts? How should changes in pre-existing renewable generation be taken into account? What are the implications in terms of economic efficiency, environmental effectiveness and equity?	Yes. As above, this would be best achieved through fixed 5 yearly targets.
Is the calculation of individual liability using the Renewable Power Percentage the most appropriate methodology?	The Renewable Power Percentage is an appropriate mechanism.
Is it appropriate to set the Renewable Power Percentage by 31 March of the compliance year?	Under the current agreement the Clean Energy Regulator (CER) is required to give a firm RPP % by 31 March for that calendar year. Power and Water, like most utilities, applies cost increases from 1 July each financial year. With only an estimate of the following calendar year available, the second half of any applied increase can only be estimated. It is Power and Water's view that a firm RPP% should be advised by the CER so that a more accurate pass through of the LRET liability could be achieved. An annual revision of the fixed 2 year RPP% to true-up actual energy supplied would ensure the 41,000GWh

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	target is achieved. Advice on the RPP should be provided with the same calendar year timings as the CPM.
Are there other issues relating to the liability or surrender framework the Authority should consider?	The Northern Territory electricity market is characterised by several islanded grids. With natural growth over time small island grids approach the 100MW threshold. There are a number of issues which have been highlighted as the connected capacity of our small islanded grids approach 100MW. Some of these are:- 1. Much of the generating plant is reaching the end of its service life. New replacement plant is being commissioned but there is an overlap in timing between commissioning the new plant and retiring old plant. It is suggested that a process to account for this overlap should be available to mitigate the possibility of intermittently exceeding the 100MW threshold. 2. Territory mini grids are characterised by significant renewable energy penetration. Installation of additional renewable energy generation may push these mini grids over the 100MW threshold. It seems to be incongruous that renewable generation capacity is counted in determining if the 100MW threshold has been reached. It is a perverse outcome if investment in renewable generation is disincentivised by the potential impost of a major new RET obligation. 3. The 100MW threshold was established in 1997 when the design of MRET was being developed. Natural growth in electricity demand due to population growth alone has been about 3% per annum in the Northern Territory during the past 15 years. It is therefore suggested that the 100 MW threshold be revised to 200MW or at least 150MW. No retrospectivity is suggested for this proposal.
What, if any, changes to the current exemption arrangements should be made? What would be the impact of those changes on directly affected businesses and the broader community?	Power and Water would support the removal of the self generator provision on the principle that renewable energy investments are most economically sensible when displacing diesel generation as is commonly used in remote and mine site self generating circumstances rather than displacing gas fired grid generation.
Is a list approach to 'eligible renewable sources' appropriate?	Yes.
Should waste coal mine gas be included in the RET? Should new capacity of waste coal mine gas be included in the RET?	Power and Water supports encouraging the use of an otherwise wasted resource; however any support should not be part of a renewable energy scheme.
Are the LRET accreditation and registration procedures appropriate and working efficiently?	The RPP is required to be published in the *Renewable Energy (Electricity) Regulations 2001* prior to 31 March of the year in which it applies. This allows RET liable entities time to plan their LGC acquisition strategies. If the RPP is not published prior to 31 March then the default formula under section 39 (2) (b) of the Act applies and can be used to determine the default RPP for the

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	given year. The RPP is set to achieve the interim targets specified in the legislation which will achieve the LRET for 2020 of 41,000 GWh.
Small-scale Renewable Energy Scheme	
What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies?	The Small scale Renewable Energy Scheme came in to effect in January 2011. The requirement for purchase of the substantial numbers of STCs imposed an immediate and substantial financial obligation on utilities to meet high STPs determined by ORER. For a power retailer with minimal margins and a small customer and revenue base the additional early STC costs has been a significant impost especially in light of the following factors: 1. The very late announcement of the STP for SRES in December 2010 meant that there was no opportunity to pass through the additional costs to electricity customers until July 2011. 2. The large number of STC's was in part due to the overly generous Solar Credits Multiplier which meant that utilities were initially paying for four STCs for every real MWh of renewable energy that SGUs were deemed to be producing over 15 years. Reducing the multiplier from five to three in mid 2011 was appropriate. However, Power and Water's position is that the multiplier ought to have been reduced to unity in July 2012. It is recommended that the Multiplier be immediately reduced to unity. 3. An additional contributing factor to the costly SRES liability was the inappropriately high settings of feed-in tariffs in other jurisdictions. Since 2001 Power and Water's feed-in tariff has been constantly at par with the domestic tariff. This has been seen as not only fair but in fact generous as it considerably exceeds the avoided cost of generation. FiT settings in other jurisdictions have driven cross subsidy and cost burden for the Northern Territory that would otherwise have not been the case. It is seen as perverse and unfair that unsustainable policies in other parts of Australia should so severely disadvantage a developing area such as the Northern Territory and that these, through the eRET, drive the net outflow of cash from Northern Territory electricity consumers to consumers in other states. 4. The PV marketplace has changed dramatically since eRET was designed in 2009. Prices have dropped substantially to the point that there is no need or justification for further support of this mature industry. Similarly the SHWS market is a mature and established market and needs no on-going support. 5. The cost of administration associated with the SRES is considerable, and for a small organisation such as Power and Water Corporation it has added a significant cost to administer a scheme that delivers no benefits to the

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	corporation or the bulk of its consumers (but subsidises consumers in other states). In view of the commitment to achieve 20% renewables by 2020 and the high cost and ineffectiveness of the SRES, the SRES should be terminated and the target for an overall scheme be expanded to the full 20% obligation.
Should there continue to be a separate scheme for small-scale technologies?	See above. However, if the Australian Government saw the need to maintain a separate scheme in order to maintain certainty for investment in large-scale renewable projects, then the high costs and administrative burden associated with the SRES must be contained. This could be achieved, for example, by making the SRES mirror the operation of the LRET, with (small) annual targets set in legislation, and only annual, not quarterly, surrender of STCs. This would result in abolishment of the clearing house for STCs, which adds another layer of complexity onto the scheme.
Is the uncapped nature of the SRES appropriate?	No. Year-on-year certainty is not sufficient. Power and Water supports the certainty provided by the long-term target trajectory of the LRET, for example.
What are the lessons learned from the use of multipliers in the RET? Is there a role for multipliers in the future?	The role of multipliers was one of the factors, along with inappropriately implemented FiTs, that flooded the market with RECs and led to the splitting of the scheme. Power and Water's position is that there is no role for multipliers. The outcomes of Solar Credits, in unison with FiTs, in certain jurisdictions underline the importance of pursuing national uniformity in FiTs. While COAG has promulgated national FiT principles, national regulation to enforce national uniformity in FiT implementation is supported.
Is $40 an appropriate cap for small-scale certificates given the recent fall in cost of some small-scale technologies, particularly solar PV?	If the current design of the Clearing House must continue (which Power and Water opposes, as described above) then the Clearing House price for certificates must be cut substantially. Small-scale systems are becoming competitive in their own right and have been overly successful due to current support levels; therefore a reduction of their support levels is justified. This would go some way to rectifying Power and Water's concerns regarding compliance costs of the SRES, however the significant and unnecessary administrative burdens would remain.
Are the SRES administration arrangements appropriate and working efficiently?	Administration costs have grown four-fold since splitting the MRET into small and large liabilities. The quarterly surrender obligation coupled with community expectation to buy and register small parcels of over the counter certificates all add to increased compliance costs. These costs add an increased burden on a small system such as the Northern Territory which is already struggling to manage regulatory and compliance cost impacts.
Diversity of renewable energy access	
Should the RET design be changed to promote greater diversity, or do you think that, to the extent that there are barriers to the uptake of other	Utilities like Power and Water favour least cost approaches to acquitting RET liabilities while at the same time acknowledging that the proliferation of variable

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types of renewable energy, these are more cost-effectively addressed through other means?	renewables poses significant network management challenges. An optimal outcome would be encouragement of least cost base load, or controllable, renewable energy generation. In this context maintenance of the RET least cost drivers with other mechanisms to encourage controllable renewable energy would be supported.
What would be the costs and benefits of driving more diversity through changes to the RET design?	Increased penetration of controllable renewable energy generation has network management benefits.
Review frequency	
What is the appropriate frequency for reviews of the RET?	At five year intervals.
What should future reviews focus on?	Ensuring the intent and purpose of the Scheme is being met.