

Stanwell Corporation Limited
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Renewable Energy Target Review

Climate Change Authority

Issues Paper

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1. Overview

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to comment on the Renewable Energy Target (RET) Review Issues Paper.

As background, Stanwell is a Queensland Government owned generator, with the capacity to supply more than 45 per cent of the State's peak power needs. We are a diversified energy company, with an energy portfolio comprising coal, gas, diesel and hydro power generation facilities geographically dispersed across Queensland.

Stanwell is an active participant in the RET scheme. We generate Large-Scale Generation Certificates (LGCs) through our hydro power stations in North Queensland. As a retailer to large commercial and industrial customers, Stanwell is liable for both LGCs and Small-Scale Technology Certificates (STCs). As a major player in the energy, resources and carbon markets, the impacts the RET has on retail and wholesale electricity price outcomes are also of keen interest to Stanwell.

We recognise the role the RET has played to date in delivering renewable energy (and lowering new entrant costs) and the level of investment undertaken by businesses nationally. To promote an environment of policy certainty for investors, we consider there is a continuing role for a national RET scheme (and maintenance of large-scale scheme eligibility criteria and baseline generation levels), but a number of amendments are required to ensure it delivers on its original objectives and limits the increase in the costs of electricity to consumers. These targeted amendments are outlined as follows:

- **Reduction in the Target -** The target should be immediately adjusted to reflect the changing demand profile, such that it continues to represent 20 per cent of national energy demand. To facilitate this adjustment, Stanwell strongly supports a transition from a fixed gigawatt hour target to a fixed percentage target.

  Removal of the Small-Scale Renewable Energy Scheme (SRES) – A separate SRES is no longer necessary as the reduction in the solar credit multiplier largely brings small scale projects in-line with large scale investments. If it continues, the uncapped nature of the scheme creates unnecessary uncertainty for the energy market.

- **Expand and realign the Scheme Review Timeframes -** Stanwell supports an extension to four years for reviewing the RET Scheme. A review every two years contributes to uncertainty in the market and potentially discourages new entrants.

We consider these recommendations will improve the efficiency of the RET Scheme, which is particularly relevant to the current issue of rising energy costs to end users. We note that in Queensland the Competition Authority (QCA) (and related advice), in preparing the 2012-13 Benchmark Retail Price Index (BRCI), reported the RET scheme (excluding carbon) contributed over 13 per cent to end use customer bills. More recently, the findings of a preliminary study by the QCA into the cost of "green schemes" have been released and indicate that household electricity bills in Queensland would be at least 18 per cent less in the absence of the RET and associated schemes.

Stanwell's response on a number of the specific questions identified in the Issues Paper is set out below. We welcome the opportunity to discuss the matters contained our submission in more detail.

2. Response to the Issues Paper

A. LRET

Are the existing 41,000 GWh LRET 2020 target and the interim targets appropriate? What are the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity?

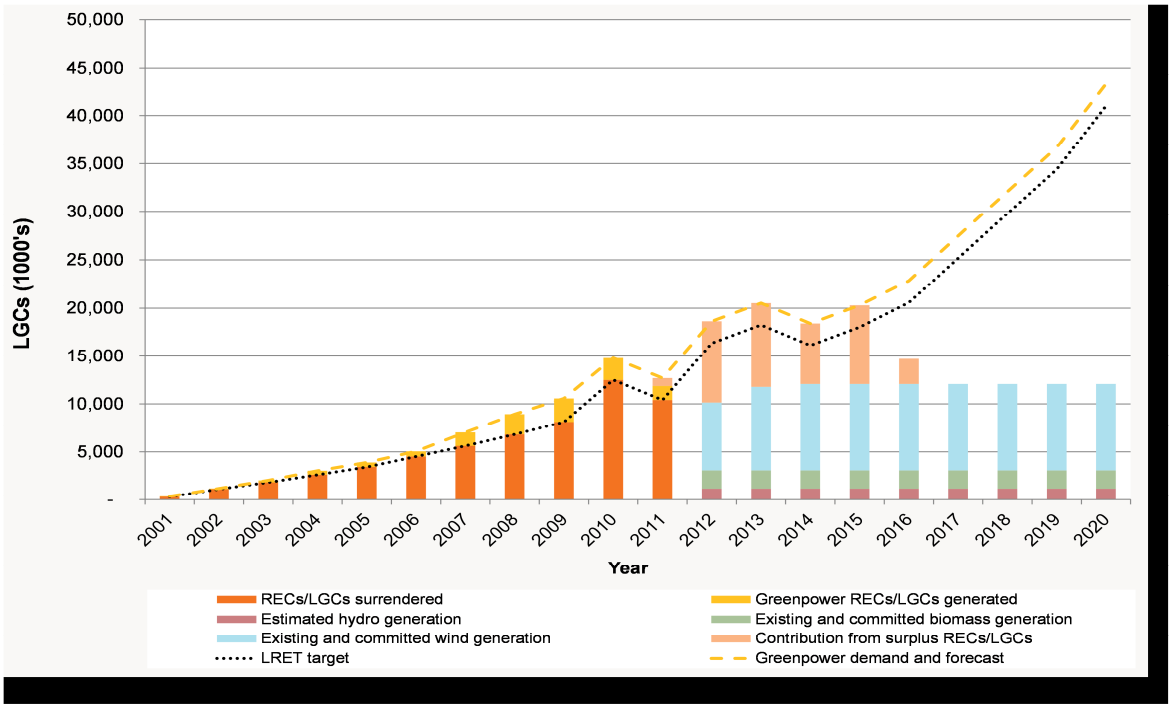
Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?

Stanwell strongly supports an immediate review of the target to reflect the changing demand profile, such that the target represents 20 per cent of national energy demand. It is our preference that the RET Scheme should move to a fixed percentage target rather than a gigawatt hour target. A percentage target would ensure the Scheme is responsive to changing market conditions and avoids the current situation (and the associated wholesale energy market impacts) where the target exceeds the current policy commitment.

Recent demand forecasts confirm the achievement of the set gigawatt hour targets under the current RET would result in delivering close to 25 per cent renewable energy by 2020, rather than 20 per cent as originally intended. Stanwell also notes the potential challenges to achieving the current targets, particularly as the annual target increases materially beyond 2015.

While there are a range of views and studies expressed publically, Stanwell notes the very recent findings of the 2012 Electricity Statement of Opportunities (ESOO) prepared by AEMO. The report found that, while there are enough RECs and LGCs to satisfy the LRET until 2015, a material LGC deficit is forecast from 2016, coinciding with the significant increase in the annual target from that point. The graph below from the 2012 ESOO demonstrates the expected supply shortfall from 2016 onwards. AEMO found that the projected deficit in 2020 is estimated at 31,200GWh, and that, based on historical output in South Australia, wind capacity of 10,800MW would be required to generate this amount of electricity for the year.

Graph 1: Actual and forecast LGC's 2001-2020



Source: AEMO ESOO 2012

Stanwell recognises a change to a fixed percentage target would create a need for the Clean Energy Regulator (CER) to update the target trajectory on a more frequent basis to reflect the latest demand forecasts. Market participants (including prospective market entrants), however, have access to a broad range of market information, such as long term demand forecasts, to determine the requisite GWh to achieve the percentage target. To assist in making investment decisions, prudent investors already form their own view on future demand projections.

The substantial increase in renewable energy generation required to achieve the current target will have a material impact on electricity prices for consumers, through increases in both generation and network costs. The cost of generation is expected to increase as more costly renewable energy displaces traditional, more cost effective generation. Further, the RET scheme contributes to increased network electricity costs to cope with the intermittent nature of wind, the primary generation source under the RET. This will be exacerbated if the current targets are retained.

As noted above, the recent QCA preliminary analysis confirms the cost of renewable energy generation is significantly higher than traditional sources, and that the schemes contribute to a material increase in electricity prices for Queensland consumers. The QCA is also looking into the additional infrastructure costs associated with green schemes and the impact these costs have on electricity prices. In addition to the information already available, we encourage the CCA to consider these reports as they represent the most recent analysis of the impacts of the RET.

Stanwell's strong preference is for a fixed percentage target. If a fixed gigawatt hour target is retained, Stanwell strongly supports a one-off reduction in the target to reflect the material reduction in forecast electricity demand. Such a reduction would then provide certainty to the market regarding the level of renewable energy required over the period to 2020, and should not negatively impact on renewable energy developments currently being considered.

In terms of implementation, Stanwell notes that the resetting of quantity targets does not necessarily require amendment of the RET legislation. An alternative approach would be to mitigate the surrender obligations by setting a lower renewable power percentage under section 39 of the *Renewable Energy (Electricity) Act 2000 (Cth)* (REE Act).

In the context of other climate and renewable energy policies, is there a case for the target to continue to rise after 2020?

Stanwell does not support any increase to the target beyond 2020. We appreciate the need to maintain the target beyond 2020 in terms of providing investors with an appropriate period of certainty. Given the recent introduction of the Carbon Price Mechanism (CPM), Stanwell supports consideration of the methodology (i.e. target trajectory) for ramping down the scheme post 2020. Electricity and network costs and the impact of the carbon price should also be included in these considerations. Formulation of a trajectory would need to consider commercial requirements, base wholesale energy prices projections, new entrant costs and domestic and international carbon prices.

Stanwell recognises the need to provide a level of certainty for existing and prospective renewable energy developers. Stanwell supports consideration of a potential ramp down post 2020, provided stakeholders are consulted throughout the process and there is a suitable coverage period for renewable energy developers.

What are the costs and benefits of increasing, or not increasing, the LRET target for Clean Energy Finance Corporation (CEFC)-funded activities? What are the implications in terms of economic efficiency, environmental effectiveness and equity?

Stanwell notes the Government's decision that any investments by the CEFC should not affect a project's eligibility for LGCs under the RET. Notwithstanding the merits of whether a project should be eligible for payments under the RET whilst obtaining preferential financing under the CEFC, Stanwell does not support an increase in the LRET target to ensure that CEFC-funded activities are additional to the target. As stated above, there are potential difficulties in achieving the existing target. Further increasing the target to add CEFC-funded activities is not recommended, given difficulties in forecasting the level of certificates that would be produced by CEFC projects as the program is only in its infancy.

Is the calculation of individual liability using the Renewable Power Percentage (RPP) the most appropriate methodology?

Stanwell has no objections to the use of the RPP to determine individual liability. The methodology is considered to be equitable and transparent. Further, continuation of the existing methodology provides greater certainty for market participants.

Is it appropriate to set the RPP by 31 March of the compliance year?

Stanwell's preference would be for the RPP to be set prior to the commencement of the compliance year. As previously stated, Stanwell is also a retailer to a small number of large commercial and industrial end users. Many retailers to large end-users are required contractually to re-set their LGC charges for a compliance year when the RPP is announced. Setting the RPP after the start of the compliance year adds administrative complexity (and hence cost) to the management of these charges and causes confusion and decreased cost certainty for customers.

Is the shortfall charge set at an appropriate level to ensure the 2020 target is met?

Stanwell considers the shortfall charge is set at an appropriate level. The charge as it currently stands provides an upper price bound for market participants.

B. SRES

What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies? Should there continue to be a separate scheme for small-scale technologies?

Drawing on our earlier comments, Stanwell strongly supports the cessation of a specific SRES and the forecast generation from existing and future small-scale generation included in the overall RET. The increased affordability of small-scale systems (as reflected in the reducing multiplier) negates the need for an STC arrangement. The uncapped nature of the scheme is also concerning, particularly given the uncertainties around future demand. This unpredictability is not assisting players operating in the wholesale electricity market and could be limiting overall market efficiency and liquidity.

It is noted that output in the scheme will naturally be wound back over time as the multiplier and feed-in tariffs are reduced. However, given the scheme is uncapped, and the cost of small-scale renewable energy technologies continues to fall, it is uncertain whether the reduction will be as significant as predicted.

The primary consideration for Stanwell in relation to the SRES is its continued negative impact on wholesale electricity prices as a result of a reduction in demand for electricity. The SRES is a scheme that distorts the efficient operation of the market. The SRES also increases network costs through the resultant need for network support for small-scale technologies, which puts further pressure on increasing electricity prices.

Stanwell considers that upfront deeming under the SRES is also problematic. The level of real renewable energy generated into the future is unknown. In addition, the SRES places an unnecessary administrative burden on market participants. If the SRES were to continue, Stanwell does not see the merit in quarterly reporting. It is considered more efficient to move to annual reporting, as is the case with the LRET.

We note there are likely to be transitional issues in a phase out of the SRES, but consider with sufficient opportunity for stakeholder consultation, these can be managed.

C. OTHER ISSUES

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 types of renewable energy, these are more cost-effectively addressed through other means?

Stanwell does not support an amendment to the RET to promote greater diversity of renewable energy access. Changes to the scheme to promote specific technologies would only add to the administrative burden for participants. Further, the adoption of separate targets for different technologies is not cost effective; further lowers the liquidity of the market; and doesn't support the efficient operation of the market. In promoting a stable investment environment, we do not advocate for changes to the sources of eligible generation and this equally applies to the agreed generation baselines for pre-1997 generation.

Stanwell considers that the CEFC is the appropriate mechanism to promote renewable energy technologies, given its role to overcome capital market barriers that hinder the financing, commercialisation and deployment of renewable energy, energy efficiency and low emissions technologies.

What is the appropriate frequency for reviews of the RET?

Stanwell recognises the REE Act mandates a review of the RET by the CCA every two years. However, Stanwell supports an extension of the review period to enable greater certainty for market participants (current and prospective). Consistent with our recommended approach regarding the LRET target, annual changes to the target could be made to reflect the latest demand forecasts.

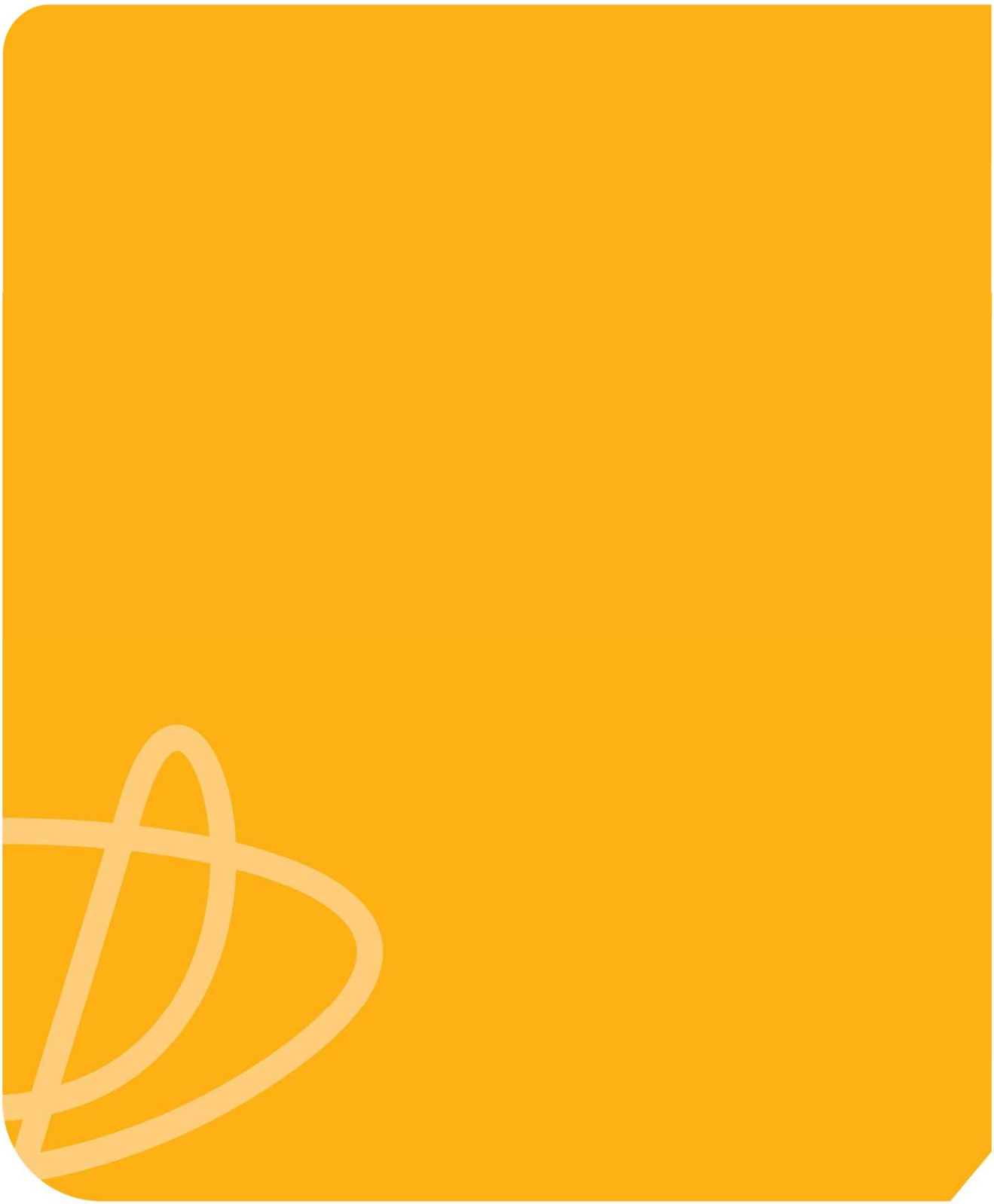
Stanwell recommends extending the review timeframe to four years, such that the next review would be in the second half of 2016. This timeframe would coincide with the CCA's review of the CPM.

3. Concluding Comments

Stanwell considers a number of adjustments to the RET Scheme are necessary to ensure it is responsive to changing market conditions and minimises the overall costs of the Scheme to customers. The level of the target should be immediately reviewed and reduced to reflect the changing energy demand profile. There is also benefit in removing the specific SRES scheme and incorporating the small-scale technology contribution as part of the larger scheme. The drivers behind maintaining a dual scheme have largely diminished. Moving forward, the uncapped nature of the scheme poses greater risk to the market in terms of uncertainty.

While not specifically addressed in the Issues Paper, the CCA should be aware of some of the difficulties of ensuring that customer cost pass through determinations reflect the efficient costs of complying with the Scheme. In recent retail tariff determinations questions have been raised about the appropriate measure to reflect RET costs (i.e. forward trading prices, shortfall charges etc). Unless end use customers are facing efficient costs, the benefits of adjusting the Scheme will not be fully realised. In the context of conducting the review, we encourage the CER to gain an understanding of some of these practical issues.

Stanwell looks forward continuing our involvement in the RET Review process and would welcome the opportunity to discuss any of the issues raised in this submission directly with the CCA.



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