Climate Action Hobart

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RENEWABLE ENERGY TARGET REVIEW: ISSUES PAPER

Climate Action Hobart is an independent, non-aligned community group dedicated to a safe climate future.

Summary of Recommendations

Climate Action Hobart is calling on the Authority to recommend to the Australian Government that:

1. the national Renewable Energy Target is retained and expanded;

2. the LRET target is lifted (as detailed below) and the timeframe of the scheme extended to 2050, in order to provide certainty for investment and to end the 'solarcoaster' of stop-start renewable energy policy that is currently impeding industry development in Australia;

3. the 2050 target is set on the basis of the outcome required, which is that Australia rapidly achieves a sustainable, virtually-carbon-free economy in line with the recommendations of the IPCC (that is, that developed countries reduce their emissions by 80% – 95% by 2050 over 1990 levels). Given that some other sectors will find it more challenging to reduce emissions than the energy sector – where zero carbon generation and also efficiency options are already plentiful, technically proven and cost effective – this target should be 100% renewable energy (electricity) by 2050 – taking into account expected growth in electricity demand, including for the expected electrification of the light vehicle fleet;

4. the 'pathway' to 2050 (ie, annual targets) at levels designed to: first, immediately absorb the structural overhang of large-scale generation certificates; second, stimulate ongoing investment in renewable energy projects at a rate that allows confidence that the 2050 target will be met; third, anticipate further technological development and cost break-throughs in future, and therefore avoiding over-stimulating the market in the short term. Firm, legislated targets should be set on a rolling 10-year basis (sufficient to enable projects PPAs to be written) each year, with an indicative trajectory for the succeeding 10 years.

5. Maintain the separation of small and large-scale schemes, and develop the capacity to actively monitor and adjust the pathway to compensate for any unforeseen consequences for renewable energy investment of policy settings such as state feed-in tariffs or government solar

hot water or PV subsidies, to avoid such schemes undermining the effectiveness of nRET, as has occurred in recent years.

6. Replace the 2-year review cycle with a 5 year review cycle – in keeping with normal administrative practice - to minimise disruption and uncertainty for the renewable energy industry.

Background and Rationale

The Climate Change Authority's review of the national Renewable Energy Target (nRET) comes at a time of a great simplification and weakening of climate policy in Australia. Almost daily, another climate policy or measure in Australia is cut, weakened or put up for review. In virtually every case, the introduction of the carbon pricing mechanism is cited as the proximate cause, even if it is apparent that other motives are in play. 'Complementarity with the carbon pricing mechanism' has become the new gold standard, apparently a higher good than any other objective of public policy. This agenda is being pursued by the Productivity Commission, COAG[1] and senior government officials with a degree of zeal that reveals that ideology, rather than careful and rational analysis, is at work. A key test of the Authority's *bona fides* will be its ability to rise above this and instead deliver an assessment that takes evidence and the bigger picture into account.

At the same time, Climate Action Hobart recognises that renewable energy generation costs are falling – for some technologies – and that, in principle, the Government should take this into account and avoid over-stimulating the renewable energy market. At the same time, recent history has shown that a much greater threat is the stop-start policy changes that are undermining enterprises, confidence and investment in the sector, as well as creating confusion for consumers. We note that nRET is a 'self-calibrating', market based measure, so if the cost of generation falls, and/or the carbon price rises, LREC prices in particular will automatically respond, thus there is no justification for continual intervention in the nRET scheme because of these factors.

Key Facts

The RET is Australia's most important and successful climate policy. It is a market-based measure that has delivered and is continuing to deliver renewable energy for Australia at increasingly low cost.

The cost of the RET is small and getting smaller, particularly when weighed up against the benefits in terms of energy diversity and security, reduced energy demand and wholesale energy prices, investment and jobs, and carbon abatement.

The RET provides the investment certainty necessary for the commercial development of Australia's abundant renewable energy resources. The primary threat to this outcome is continual government interference in renewable energy policy, disrupting investment, bankrupting enterprises and destroying certainty.

nRET has successfully delivered large scale investment in new and sustainable energy infrastructure for Australia.

[1] Productivity Commission, *COAG's Regulatory and Competition Reform Agenda: Research Report,* June 2012.

The RET has undergone regular reviews since its inception, each time resulting in the slowing or deferment of investment. RET reviews every two years are unnecessary and present the single greatest risk to the achievement of the required policy outcomes.

Since its introduction, nRET has generated some $18.5 billion of investment and thousands of jobs – many of them in regional and rural areas of Australia.

nRET has encouraged more than 1.7 million Australian households to investment in solar and renewable energy technologies.

Thanks to utility scale projects, the equivalent of more than 2.1 million households are now powered by large-scale renewables such as hydro and wind.

The cost of the Renewable Energy Target contributes just 7 per cent to the average Australian electricity bill, and this is forecast to drop to just 4 per cent by 2020 – with even greater potential savings as we all become smarter about how we use our energy.

This is one climate policy that is demonstrably supported by the majority of Australians as it clearly, directly and efficiently delivers the clean energy future Australians want.

Rationale

The rationale behind our recommendations is as follows:

1. The carbon pricing mechanism – with its current targets set for political convenience rather than as the science demands – will not generate a carbon price sufficient, on its own, to drive enough investment in the renewable energy to enable a complete decarbonisation of electricity supply in Australia by 2050 – a necessary but still not sufficient step along the pathway to reaching the IPCC's developed country requirements. A carbon price at such a level would be regressive and unnecessarily impose costs elsewhere in the economy that are not imposed under a more targeted measure such as nRET;

2. There is NO risk of an nRET policy to 2050 competing adversely with an emissions trading scheme, and no argument that such a measure is therefore not 'complementary' to the CPM. As the Issues Paper points out, in the unlikely event that the carbon price were to rise sufficiently to support the required level of renewable energy investment on its own, or indeed if renewable energy costs fell much faster than anticipated to levels where little or no support was required, then the LGC price would self-calibrate in response, even falling to zero where no support was required. nRET should be viewed as the primary market based tool delivering renewable electricity outcomes, with the CPM cap acting as a 'backstop', primarily to discipline (in theory, at least) the growth on new emissions-intensive activity in the economy. We note that the current carbon price is demonstrably too low to have this effect, however.

3. nRET, as a legislated and structural policy measure, also does not compete with short-term funding measures such as the Clean Energy Finance Corporation or ARENA. Apart from the fact that these budgetary measures will undoubtedly be removed in the medium term, the logic of 'policy distortion' runs in the opposite direction. Policy outcomes under nRET, as a pre-existing

and market-based policy, do in fact risk to be distorted by projects 'double dipping' in direct government funding (eg, under ARENA or the CEFC) while also being able to earn large-scale generation certificates (LGCs). This is a clear case of adverse selection, as lower-cost and more market-ready projects that do not receive funding from ARENA or CEFC will be crowded out of the LGCs market. The remedy for this policy failure is to rule that projects funded under ARENA and CEFC may not also earn LGCs – no double dipping. This underscores that nRET is primarily a tool to support and ensure least-cost renewable energy generation – other more targeted programs such as those noted should support the R&D and the demonstration and commercialisation of next generation (and, in the short term, higher cost) renewable energy technologies.

4. The fundamental policy objective of nRET has always been first and foremost to encourage the additional generation of electricity from renewable sources, with greenhouse gas abatement and qualitative objectives for renewable technology development as subsidiary objectives. Implicitly this objective recognises that the technological, institutional and market context is tipped decisively in favour of large, remote, thermal power generation from fossil fuels. The power of the fossil fuel industry's market incumbency, its 85%+ market share, its influence in the design of the NEM and its enormous financial reserves with which to lobby politicians and market institutions alike – these represent enormous hurdles for new renewable energy projects and technologies. The objective of nRET correctly focuses on the required objective of public policy – that is, that we generate electricity from sustainable, renewable sources. The theoretical argument that a broadly based carbon pricing enables access to lower cost greenhouse abatement than a more targeted measure rests a large number of assumptions and ignores the substantial search and transaction costs associated with such schemes. A portfolio of well-targeted measures – that are able to be adjusted when necessary in response to contingency – can provide a lower-cost solution, particularly when there are multiple policy targets (ghg abatement, while important, is not the only goal of public policy), including by improving dynamic efficiency. That is, provided that policy targets deliver sufficient certainty, industry is able to invest confidently in innovation and to accumulate know-how that drives down costs over time, including as a function of learning. The static, neo-classical model of perfect, technology-neutral competition between abatement options – some of which do not even currently exist and will not without substantial direct investment ('carbon capture and storage' is an example from the fossil fuel world) – is far removed from the commercial realities of technology and project development. We must not allow our attachment to such abstract ideals to stand in the way of good and necessary public policy outcomes.

Philip Harrington

On behalf of Climate Action Hobart

14 September 2012