NATIONAL GENERATORS FORUM

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Submissions
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Renewable Energy Target Review

Dear Sir/Madam

The National Generators Forum (NGF) is the national industry association representing private and government owned electricity generators. NGF members operate across all states and territories and all generation technologies, including coal-fired plant, gas-fired plant, solar, bio-waste, hydroelectric plant and wind farms.

The following views are those of a majority of NGF members. Hydro Tasmania, Snowy Hydro and EDL do not support the views expressed in relation to the need to reduce the LRET target.

The NGF supports the continuation of the RET and the objective of achieving at least 20% renewable generation by 2020. The RET is an important component to reducing greenhouse emissions to 5% below 2000 levels by 2020 and has been effective in its objective of attracting investment into renewable generation.

The NGF is however concerned that the fixed LRET target of 41 TWh/a, in light of an unprecedented reduction in electricity demand since 2008, has the potential to cause material harm to the National Electricity Market.

The LRET (41 TWh/a) was based on forecasts of demand for electricity in 2020 which, in light of new data, are unlikely to be realised. Since 2008 electricity demand in the National Electricity Market (NEM) has fallen from 197 TWh/a to 191 TWh/a and the forecast electricity demand in 2020 for the NEM has been reduced by 20% (from 270TWh to 217TWh).

The fixed LRET target is forcing an increase in the supply of energy into a market that has been contracting for five years.

Not-with-standing these concerns, numerous major investments have been based on the continuation of the RET policy and associated REC prices. In considering options to reform the RET the Government should make detailed analysis of forecast REC prices, under different reform options, publicly available through the 'Discussion Paper', to enable informed debate on the issues.

Maintaining a relatively stable REC price over the duration of the scheme should be an objective of the Review.

Fixed Target or Variable Target

The Australian Government's commitment of at least 20 per cent of Australia's electricity supply being delivered from renewable sources by 2020 should be expressed in these terms and not as a fixed TWh target for industry.

The targets established under the RET and the MRET have been historically described as 'interim targets' which were translated into fixed TWh targets based upon best available forecasts at the time for future electricity demand.

Demand forecasts for electricity had been relatively stable for many decades. Since 2008 however, electricity demand growth has fallen well short of official projections and forecasts. The relationship between economic growth and historical elasticity of demand appears to be changing. This decline in demand for electricity and the dislocation between forecast and actual demand is highlighted in Figure 5.4 of the Issues paper.

A range of factors have caused the decline in electricity demand including increasing price elasticity of demand with the rapidly increasing pricing of electricity over this period, improved energy efficiency and reduced industrial activity.

The AEMO forecasts which underpinned the policy objective of 20 per cent renewable generation, even as late as 2011, anticipated growth in demand of between two and three per cent for the next decade.

The demand forecasts, if realised, would have resulted in renewable electricity generation forming a part of the new investment in generation. These revised forecasts now see new generation eroding the existing generator dispatch volumes.

The NEM has operated as a competitive electricity market since its establishment in 1998 and has operated with the RET and MRET under fixed targets. The unprecedented contraction in demand for electricity now necessitates a change in the renewable energy target to avoid unintended impacts and potential market failure.

Moreover, the NGF believes that while the revised 2012 AEMO National Electricity Forecasting Report moderates the demand forecasts, they remain ambitious. The AEMO demand forecast anticipates that the current decline in demand will cease immediately and that demand will again grow each year through to 2020. This appears at odds to anticipated further increases in the regulated retail price of electricity over the next five years and recent trends in demand from major electricity users.

Despite the NGF's concerns, the current market conditions could again change rapidly and the with an evident change in the elasticity of demand model for electricity it appears increasingly difficult to accurately forecast future electricity demand, regardless of the periodic reviews legislated in the *REE Act 2000.*

Periodic Review

Periodic reviews of the REE Act 2000 are legislated to occur biannually until 2018. These reviews should, at the least, be refined as administrative and operational reviews, if a 20 per cent target is introduced.

If a fixed target is retained, further periodic reviews will be necessary to moderate the target to ensure that it does not oversupply the NEM with generation capacity.

Small and Large Scale Renewable Schemes

The NGF is concerned that the multiplier certificates for small scale projects created uncertainty in the REC market resulting in price changes in the REC market.

Noting that the current SRES multiplier arrangements are due to expire in June 2013, the NGF recommends that the SRES not be extended and that the RET aim to promote least cost renewable generation technologies.

Moreover, the NGF would prefer that all projects be encompassed in a single scheme regardless of technology or scale of the project. This would lead to least cost emissions abatement.

Conclusion

Investment in renewable generation technologies will not occur without government subsidies. The declining cost of the renewable generation technologies and the Carbon Price alone are insufficient to attract investment in renewable generation, at this stage.

The RET policy has been effective in attracting investment in renewable technologies however, given the reduction in electricity demand growth and the impact of the RET policy on the operation of the NEM there is a need for substantial reform to the *REE Act 2000*.

In considering options to reform the RET the NGF encourages the Climate Change Authority to analyse a range of options to moderate the impact of the RET on the wholesale market and maintain a relatively stable REC price including re-profiling of target years.

We will be in contact with your office to further discuss these issues.

Yours faithfully,

Tim Reardon

Executive Director