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Renewable Energy Target Review Issues paper: August 2012

The Energy Networks Association (ENA) is the peak national body for Australia's electricity transmission and distribution and gas distribution businesses. ENA members supply energy to virtually every household and business in Australia. ENA welcomes the opportunity to make a brief submission to the review of the Renewable Energy Target (RET).

ENA wishes to highlight some significant issues with the Small-Scale Renewable Energy Scheme (SRES).

The first issue is the extent to which the SRES has fueled higher electricity prices for most customers. The SRES creates a cross-subsidy from electricity consumers as a whole to customers with household photovoltaic (PV) systems installed. The scale of this subsidy has been inflated by the combination of the Solar Credit Multiplier and State government feed-in tariffs.

There is abundant evidence from reputable sources that the cost of this subsidy to the average customer is significant. In New South Wales, for example, the State government regulator (IPART) estimates that the SRES adds about $5.50 per MWh to electricity costs. In its latest determination, IPART makes the following observation: [1]

> "We are also particularly concerned about the Commonwealth Government's Renewable Energy Target (RET) scheme, the costs of which have been a major driver of recent increases in electricity prices. The RET is not cost-effective, particularly the Small-scale Renewable Energy Scheme (SRES). Rather, it promotes very expensive emissions abatement and relatively expensive renewable energy production, which has a considerable impact on retail electricity prices."

From a network perspective, the SRES compounds other cost pressures on electricity prices. The rapid growth of household photovoltaic systems has created new costs for networks – for example, the cost of PV connections, power quality management and other technical issues. However, there are other effects from the widespread installation of household PV systems which are increasing electricity prices for customers without PV systems.

[1] IPART Changes in Regulated Electricity Retail Prices from 1 July 2012, 2012, p.88.

Network costs are recovered from volume-based charges paid by customers. Volume-based charges are used because relatively few households have interval or smart meters installed. By reducing their consumption of electricity delivered over the grid, customers with PV panels also reduce their contribution to the costs of the grid. Inevitably, other customers must bear a greater share of these costs.

The equity of this arrangement must be questioned. Customers with PV panels remain dependent on their grid connection. They also contribute to one of the key drivers for higher network costs – growth in peak demand. The evidence is clear that households with PV systems are using as much energy at peak periods as other households. However, the costs of augmenting the network to satisfy this peak demand are disproportionately borne by customers without PV systems.

At a time when network businesses are being criticised for higher charges, it is important to recognise how government programs such as the SRES are fueling such increases. The Commonwealth should consider whether the environmental benefits attributed to the SRES are sufficient to justify higher electricity costs or could be achieved in other ways with less impact on customers.

The SRES is also the major subsidy scheme for residential water heaters. Eligibility for the SRES includes solar hot water heaters listed in the Clean Energy Regulator's '*Register of Solar Hot water Heaters*' and air heat pumps. Including a limited range of water heater models in the scheme has been justified on the grounds that such models yield emissions savings by displacing electric systems.

If this 'displacement' rationale is accepted, ENA believes that eligibility for support under the SRES should be extended to other technologies with similar emissions benefits. The most obvious example is gas heaters which can offer similar emissions benefits[2]. For many years, these products have been disadvantaged by government subsidies offered to competing systems.

The Issues paper issued by the Authority notes that the report of the Council of Australian Governments' *Review of Specific RET Issues* considered whether additional small-scale technologies should be included in the SRES. The review recommended against including other displacement technologies on the basis that such systems could be supported through future energy efficiency schemes.

On this basis, if the SRES cannot be expanded to include similar appliances such as gas hot water heaters, then ENA considers that the solar hot water heaters and air pumps should be removed from the SRES.

[2] George Wilkenfeld & Associates, *Regulation Impact Statement for decision: Phasing out Greenhouse-Intensive Water Heaters in Australian Homes,* November 2010, p.7.

The Issues paper also notes the intended phase out greenhouse intensive electric hot water systems, as agreed at the Council of Australian Governments' meeting in December 2010. This policy has had some success in restricting installation of electric hot water systems in new, detached, terrace and town houses. Phase out of electric hot water systems in existing houses is to advance on a jurisdictional basis. As yet, this policy has had very limited implementation, due in part to the greater up-front capital cost of alternative hot water systems.

A program which provided financial support to help address the high up-front cost barrier would assist the implementation of the phase out of electric hot water systems in existing houses. Any such a new system would need to ensure that all valid alternatives should receive equal access to support, unlike the current SRES system.

ENA would be happy to discuss this matter with you. For further information, please contact Susan Streeter, Adviser on sstreeter@ena.asn.au or 02 6272 1500.

Kind regards

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