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Submissions
Climate Change Authority
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Dear Sir/Madam,

Re: Renewable Energy Target Review

Rio Tinto welcomes the opportunity to make a submission to the Climate Change Authority's review of the Renewable Energy Target (RET) Issues Paper.

From a policy perspective, Rio Tinto questions the justification for retaining the RET given the recent establishment of the carbon pricing scheme and at a time of increasing energy costs, global economic uncertainty and falling commodity prices. The RET overlaps and competes with carbon pricing and results in expensive carbon abatement. This represents an unnecessary and unsustainable cost pressure on business, particularly electricity intensive industries such as the aluminium industry.

Given the focus of the issues paper is on matters pertinent to the Climate Change Authority review of the RET, if RET is to be retained, Rio Tinto also considers that:

- Partial exemption arrangements for emissions intensive trade exposed (EITE) activities are essential to preserving the ongoing competitiveness of trade-exposed and energy intensive facilities, due to the inability to pass additional costs of compliance on to customers.

- Self-generator exemption provisions remains important within RET in supporting the development of additional self-generation capacity for which a substantial portion employs more efficient cogeneration technologies and/or less greenhouse intensive natural gas or renewables.

- Both the partial exemption arrangements for EITE activities and the self-generator exemption provisions should be retained as they address different policy intents which are both appropriate and relevant within the RET scheme. This view is supported by the COAG Review of Specific RET Issues (2012), which did not recommend that self-generation exemptions be removed.

- Exemptions under RET for electricity intense industry should be more fully reflective of the competitiveness impact that the scheme has on these industries. Not only is there no justification for excluding one aspect of RET costs (ie the Mandatory Renewable Energy Target (MRET) component) from the exemption arrangements, but the partial exemption needs to fully deal with the current excessive cost pressure of the RET on electricity intensive industry.

- The current self-generator exemption provisions are unduly restrictive and do not adequately reflect the geographic size and electricity capacity realities of modern resource projects. They will lead to inefficient capital investment in terms of stand-by and back-up capacity. There should be a less restrictive approach to the self-generator exemption for remote areas. This would support the ongoing competitiveness of Australian resource projects and efficient infrastructure investment.

- The target under RET should be adjusted to reflect its original 20 per cent by 2020 policy commitment, taking into account the fact that annual energy requirements from the electricity grid are less than expected. This would limit the cost impacts of the scheme on the Australian economy, while still achieving the Government's '20 by 2020 commitment'.

- All new low emissions generation should be counted as contributing to meeting the RET target, irrespective of whether it is government or privately funded. As such any Clean Energy Finance Corporation funded renewable energy projects should contribute towards meeting the RET target.

More detailed comments are provided in Appendix 1 attached to this letter. Should you have any queries regarding this submission, please contact Neil Marshman (neil.marshman@riotinto.com or (03) 9283 3388).

Yours sincerely

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Appendix 1 – Additional supporting information

Over the past decades, Australia has benefited greatly from its natural resource endowments, in terms of economic growth, investment, employment, as well as taxation and royalty payments to governments. Australia has the reserves to remain a major resources producer for many years, but faces a number of challenges in remaining competitive within a global market place, including low cost international producers and rising domestic cost pressures. The recent pronounced weakening of global economic growth and falling prices for Australian commodities have brought these challenges, and the vulnerability of Australian producers to global market forces, into sharp focus.

Rio Tinto therefore considers that, in the absence of a global agreement on greenhouse gas (GHG) mitigation that would apply to competitors to Australian industries, and given Australia's reliance on international trade, a judicious policy approach must be adopted to limit the risks to Australia's economic growth. Within this broader context, Rio Tinto supports the use of a market-based mechanism that is carefully calibrated against demonstrable international action and properly protects the competitiveness of trade exposed industries.

Rio Tinto does not support reliance on prescriptive technological mandates such as the RET. There is considerable evidence that the RET scheme, in particular its recent expansion to a large-scale and small-scale renewables component, has been poorly thought through and has not delivered least-cost abatement. It has imposed significant additional costs on the Australian economy which Australian businesses and consumers cannot afford in the current economic circumstances. The RET penalises electricity-intensive industrial processes and has furthermore failed to encourage the development of new renewable technologies. Given the introduction of the carbon pricing scheme, Rio Tinto continues to question the ongoing need for RET.

Given that the focus of the issues paper is on the issues relevant to the Climate Change Authority review of the RET, if RET is to be maintained, the following provides more detail to the relevant questions as set out in the Issues Paper.

What are the costs and benefits of the current exemption arrangements? Are they appropriate?

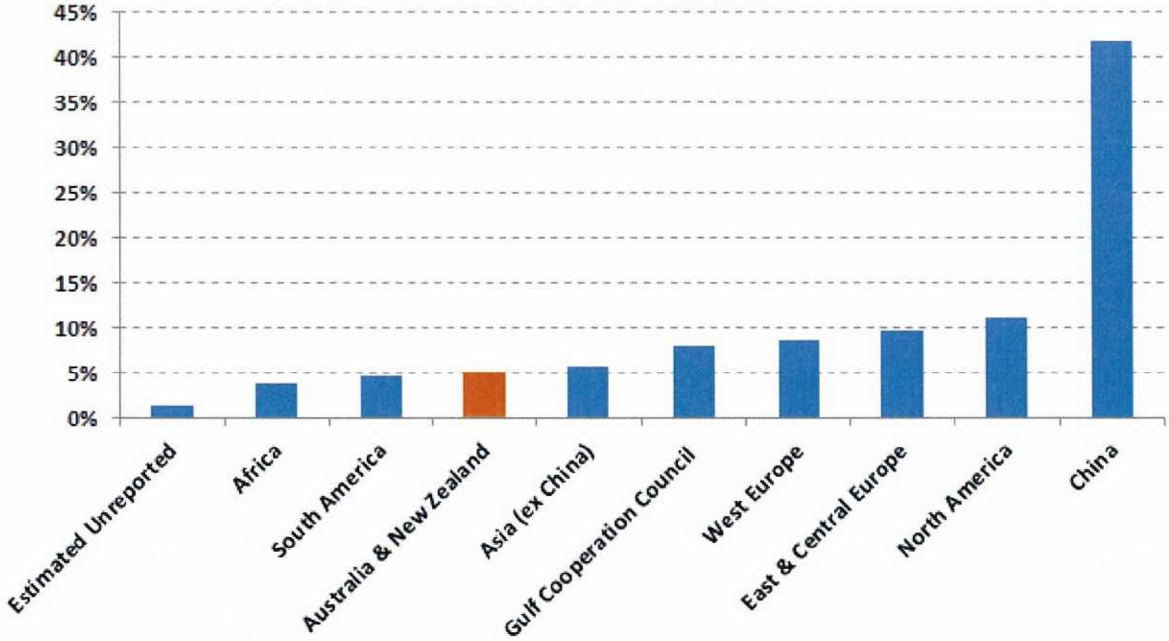
Partial exemption for emissions-intensive, trade-exposed (EITE) activities

Exemption arrangements for EITE activities are essential for preserving the ongoing competitiveness of trade-exposed and energy intensive facilities such as Rio Tinto's aluminium and alumina businesses and their contribution to the wider economy.

Under the *Renewable Energy (Electricity) Act 2000 (Cth),* businesses that undertake EITE activities may apply for a partial exemption certificate (PEC) to provide a partial shielding from the additional cost impacts arising from the RET. The purpose of the PEC exemption is to level the competitive playing field and maintain Australia's international competitiveness.

Businesses undertaking EITE activities, such as Rio Tinto's alumina and aluminium operations, compete to sell their output in intensely competitive global commodities markets. Australian producers are price takers in these markets. According to the International Aluminium Institute, the output of Australia and New Zealand combined accounted for only around five per cent of global primary aluminium production in 2011-12 (Figure 1). The overwhelming majority of aluminium is produced in countries that do not apply similar costs to their industries. Given that aluminium is internationally priced and that Rio Tinto's competitors do not face a similar impost, Australia's aluminium facilities cannot therefore pass these additional costs on to customers. In the absence of an exemption for the additional cost impacts of the RET on domestic electricity costs, the international competitiveness of Rio Tinto's aluminium facilities cannot be maintained.

Figure 1. Regional shares of primary aluminium production (Jul 2011 to Jun 2012)



Source: International Aluminium Institute, at: http://www.world-aluminium.org/statistics/#data; accessed on 4 September 2012.

The partial exemption from the additional costs imposed by the RET is intended to preserve the international competitiveness of EITE industries and the ongoing contribution of these industries to the Australian economy. Rio Tinto's alumina refining and aluminium smelting businesses are significant local employers, contribute significantly to regional economies by supporting local suppliers, and play an important role in supporting regional and remote communities. PEC exemption is necessary to continue these important contributions.

Self-generator exemption

Within the context of RET the self-generator exemption is intended to encourage self-generation which is generally lower emissions that grid electricity. For example Rio Tinto's Yarwun combined heat and power cogeneration facility, which falls under the exemption, has reduced the greenhouse gas intensity of the facility by 26 per cent. Similarly Rio Tinto's remote generation facilities in the Pilbara region in Western Australia are all gas-fired.

The provision of electricity supplies in remote locations is technically challenging and significantly more costly than is the case for industrial facilities and communities that are connected to the grid. Rio Tinto is a significant employer in regional and remote Australia, and an important sponsor of programmes and partnerships designed to benefit the wider community. Rising electricity costs associated with the RET obligation represent an additional burden and further increase what are already very significant cost pressures in the resources sector that are ultimately not sustainable. As such the self-generator exemption remains appropriate and should continue.

Whether both the EITE and the self-generator exemptions are required

The EITE and self-generator exemptions address different circumstances, have different and distinct objectives and should both be retained:

- The increased costs associated with the RET damages the competitiveness of Australian industries which undertake activities that are both emissions-intensive and trade-exposed. The EITE exemption partially counteracts these negative competitive impacts.

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- The RET self-generator exemption encourages investment in low emissions power generation by removing some of the distortion that RET creates between renewable and non-renewable sources. It remains important in supporting the development of additional lower emissions self-generation capacity.

What changes should be made to the current exemption arrangements? What would be the impact of those changes on directly affected businesses and the broader community?

Partial exemption for emissions-intensive, trade-exposed (EITE) activities

Rio Tinto considers that the EITE exemptions under the RET should be more fully reflective of the competitiveness impact that the scheme has on these industries.

Rio Tinto considers that there is no justification for excluding one aspect of RET costs (the MRET component) from the shielding arrangements for EITE industries. Furthermore, given that the Government has determined that activities such as alumina refining and aluminium smelting should be shielded at a rate of 94.5 per cent from the impact of the carbon pricing scheme, the more limited assistance provisions under the RET makes no sense. Inadequate consideration has been given to the additive costs of incomplete shielding from both carbon pricing and RET on EITE industries.

Individually and in combination, the exclusion of MRET related costs and the provision of only a partial exemption for RET related costs represent additional imposts that Australian electricity intense competitors do not have to bear. For globally traded products such as aluminium, these costs cannot be passed on in the form of higher prices. These limited exemptions reduce the profitability and longer term viability of Rio Tinto's EITE operations, with associated economic and community knock-on effects. These effects have been particularly severe in recent times when added to the effect of the low aluminium price and high Australian dollar.

Rio Tinto therefore considers that the partial exemption provisions for EITE activities should be strengthened in two ways:

- by extending the exemption provisions to include the additional cost impacts associated with the MRET scheme; and

- by providing a full exemption to highly electricity intensive activities such as aluminium smelting.

Self-generator exemption

The current formulation of the self-generator exemption is unduly restrictive in terms of its scope and application. It only applies:

- where electricity is sourced from an isolated grid that has less than 100 MW of installed capacity; or

- where the self-generator consumes electricity within 1 km of the point of generation; or

- where the self-generator delivers the electricity from the point of generation to the point of use on a transmission/distribution line which operates solely for the purpose of transferring electricity between those two points.

As a result the criteria for exemptions are not aligned with the physical considerations of many modern resource projects and appear to be arbitrary.

The size and configuration of these installations depends on the requirements of Rio Tinto's mining operations and local communities, on the available (gas) infrastructure and, importantly, on the nature of the terrain. Restrictions such as a 100MW limit or requirements for dedicated point-to-point lines appear to be arbitrary choices not connected to any particular efficiency or environmental objective, and unduly restrict the

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amount of legitimately self-generated electricity that can be claimed as exempt from RET liability.

The exemption should be redefined to reduce inefficient investment incentives. This is consistent with the WA Government view that the current provisions are unduly restrictive and do not take into account the size and complexity of remote resource projects, and that furthermore:

- the RET scheme design supported by COAG was intended to apply to large grids with multiple customers and generators, where the liable party can exercise choices between a range of competing generators, and

- the RET scheme was not meant to apply to off-grid generation, or to stand-alone resources projects, even if the project is larger than 100MW, covers a relatively large distance and/or operates its own mini-grid to supply different parts of the project[1].

As formulated, the provisions provide incentives for power generation and transmission assets to be duplicated. For example to provide stand-by and back-up capacity, or to share the output of existing remote facilities.

Rio Tinto concurs with the view expressed by the WA Chamber of Commerce and Industry in its submission to the Council of Australian Governments' Select Council on Climate Change that the 1 km and sole use restrictions:

> *"do not align with the realities of modern isolated mineral and energy projects, where the distances and infrastructure capital costs involved mean these restrictions are impractical. In such operations the point of generation and use can be over one kilometre apart and for transmission lines to transmit electricity to multiple points."*

Rio Tinto considers that the existing self-generator exemption should be extended by:

- removing the arbitrary 100MW limit, to enable existing resources projects to expand without the possibility that a relatively small increase in generation capacity would trigger significant penalty payments; and

- extending the zone of exemption to the boundaries of the site where both the generating plant and the facility or facilities it supplies are located, irrespective of whether distribution lines are shared or dedicated.

Rio Tinto considers that extending the self-generator exemption will encourage the deployment of low emissions electricity generation and support the ongoing competitiveness of Australian resources projects and efficient infrastructure investment. This will result in significant associated regional and economy-wide benefits for economic growth, employment and wealth creation.

Other matters raised in the Issues Paper:

Whether the 41,000 GWh LRET 2020 target and the interim annual targets are appropriate?

The costs of the RET scheme to the Australian economy and to electricity consumers are considerable. This brings into question the rationale for maintaining the RET, given the existence and stated purpose of the carbon pricing scheme.

However if the RET is to be retained, its overall (LRET and SRES) target should be adjusted downward to achieve the original 20 per cent policy commitment by the Australian Government.

[1] COAG Review of Specific RET Issues (2012)

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Energy consumption has fallen markedly in Australia in recent years, at least in part as a consequence of the increasing costs of achieving renewable objectives. Retaining an absolute target of 41,000 GWh for the LRET and an uncapped SRES in these circumstances contributes to a disproportionate rise in energy costs across all parts of the Australian economy.

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

Now that a carbon pricing scheme has been established in Australia, Rio Tinto questions the justification for retaining the RET particularly at a time of increasing energy costs, global economic uncertainty and falling commodity prices. The carbon pricing scheme should provide the market signals necessary to support sustainable and prudent supply side investments in renewable energy generation. The RET scheme overlaps and competes with carbon pricing, resulting in expensive carbon abatement.

What are the costs and benefits of increasing, or not increasing, the LRET target for Clean Energy Finance Corporation-funded activities?

There is no merit in drawing a distinction between government-funded and privately funded investment. As such, any abatement brought about by the Clean Energy Finance Corporation (CEFC) should contribute towards meeting the RET target. If not, this effectively increases the renewable target for Australia and associated costs.

Accordingly Rio Tinto does not believe that the LRET target should be amended to account for activities of the Clean Energy Finance Corporation (CEFC). CEFC funded renewable energy projects should objectively contribute towards meeting the RET target, however this is defined.

To the extent that there is overlap and duplication by the Clean Energy Finance Corporation and RET, the CEFC terms of reference and potentially its funding should be reviewed to focus its attention on unique activities not covered by the RET or other Government measures.

Should the RET design be changed to promote greater diversity?

Rio Tinto considers that policies favouring particular technologies incorrectly assume that government can successfully pick 'winners'. In the great majority of cases, policies of this type have not been successful and have proved extremely costly. Policies to subsidise high cost, non-commercial technologies will similarly almost certainly impose significant additional costs on Australian businesses and consumers. Rio Tinto would not endorse changes to RET design that further pushes up the cost to consumers of this measure by promoting uneconomic subclasses of renewables or providing support to technologies that are insufficiently advanced in terms of commercial development.

Rio Tinto would welcome further informed public national discussion on Australia's contribution to research and development of low emissions technologies research and development. Rio Tinto has advocated for Australian research in this area to focus on where Australia has both the capability and capacity to contribute meaningfully to the global needs and in adapting and developing the expertise to local circumstance.