Queensland
Government

Department of
Energy and Water Supply

Re: Submission to national Renewable Energy Target review

NB: This submission follows a letter of 14 September 2012 from the Queensland Government Minister for Energy and Water Supply to the Minister for Climate Change and Energy Efficiency.

Policy Context

The Queensland Government is determined to fight needless cost of living pressures on Queenslanders. Electricity pricing is a central issue. As with other jurisdictions in the National Electricity Market (NEM), retail electricity prices in Queensland have risen dramatically over recent years.

This has been influenced by a range of factors, including increasing network costs and the cost of complying with environmental policies, such as the Renewable Energy Target (RET). The RET itself is a key driver of electricity costs. The RET is estimated to add $102 to the annual bill for an average household on Tariffs 11 and 31 in Queensland in 2012 - 13.

From 1 July 2012, the introduction of carbon pricing is further adding upward pressure on electricity prices. It is estimated the impact of the carbon price mechanism on domestic electricity prices is over 10%.

It is these national policies and other cost drivers that have resulted in the Queensland Government taking action to address the impact of electricity prices on the cost of living of its residents. The Queensland Government is particularly concerned with the lack of transparency for consumers regarding the cost of the RET and renewables. In particular electricity users should be aware of the growing cost of the RET and the additional subsidy paid to renewable projects via Commonwealth Government grant schemes and feed in tariff arrangements.

A freeze has been placed on the standard domestic electricity tariff for 2012-13, excluding the increase in price due to the Australian Government's carbon policy. This short term measure has been undertaken in order to provide the Government with the time to undertake a comprehensive review of cost drivers in the electricity sector and to develop a long term plan outlining actions to be undertaken to manage future electricity prices.

The Queensland Government established a review process on Electricity Sector Reform in May 2012 to investigate all aspects of the sector that impact on electricity costs specifically, energy supply, network costs and retail competition.

The Government further engaged an Independent Review Panel to investigate the impact of Queensland's electricity network on prices and provide solutions for a secure and cost-effective network.

These State based initiatives need to be complemented by national policies that seek to contain increasing cost pressures.

APPROACH OF REVIEW

The Government supports the continued development of Australia's renewable sector, where it contributes to affordable and reliable electricity supply. It is essential that this occur in an orderly and efficient manner and takes into consideration compliance costs associated with adhering to national schemes.

The Queensland Government considers the RET Review needs to undertake a robust analysis of the RET benefits and costs in order to prove that there are benefits arising from the scheme relative to the significant cost imposts on business and residential customers. This analysis needs to take into consideration the whole energy supply chain and examine the overall contribution of renewables to network efficiency. Hidden costs associated with renewables such as the need for peaking plant to back up intermittency and potential network integration and upgrade costs should be considered. The time horizon covered should be sufficient in order to outline historical (what benefits have been achieved to date and at what cost) and future expected net benefits of the scheme.

It is essential that the review undertake comprehensive quantitative analysis. There has been no official Commonwealth modelling of the RET scheme since 2010 and much has changed since then. In particular, a formal carbon price has been established and electricity demand forecasts have fallen substantially. The current RET Review will be inadequate and ineffective if it does not take these developments fully into account.

The modelling must assess the impact of the scheme on the electricity sector and consumers, including critical assessment of costs versus benefits to all stakeholders.

The appropriateness of the central elements of the current scheme design (including targets, timeframes, costs, and the dual LRET and SRES schemes) should be tested through modelling of the market. The renewable market is dynamic and significant technology and market change has occurred since modelling was last completed.
Modelling should seek to adequately address questions regarding the expected costs of the scheme under the current carbon price arrangements and market conditions. It is also important that the full costs of renewables are factored into any analysis. This includes full cost of grants paid to renewable projects and costs associated with feed in tariff arrangements.

Modelling should also consider the benefits and costs of the scheme under a 'no-carbon' scenario as the Federal Opposition has stated that it will repeal the carbon price.

RET and Carbon Pricing Mechanism

There is clearly some duplication in the objectives of the RET and the Carbon Pricing Mechanism:

The RET aims to encourage additional generation of electricity from renewable sources; reduce emissions of greenhouse gases in the electricity sector, and ensure

renewable energy sources are ecologically sustainable. The target has been set to be at least 20 per cent by 2020.

The Carbon Pricing Mechanism (CPM) aims to reduce greenhouse emissions and drive investment helping to ensure Australia's prosperity in the low carbon world of the future.

Both of these national policies have common objectives of reducing emissions and the contribution of the RET in delivering carbon abatement at an efficient cost needs to be explained.

The RET Review must explicitly consider the rationale for the RET. It needs to consider whether the establishment of the CPM means that change to the RET is needed.

As well as incremental change, to be authoritative, the Review needs to consider the calls by experts such as Professor Garnaut (Garnaut Review Update, 2011) for the phasing out of the RET as the carbon price increases.

Large-scale Renewable Energy Target

In order that the Queensland Government can be satisfied that electricity is being delivered in a cost-effective manner for consumers in Queensland, it is important that modelling is undertaken as part of the RET review to assess the impact of the scheme on the electricity sector and consumers.

The inter-relationship and cumulative influence of national policies and programs on investment decisions and electricity prices is unclear and would benefit from being clearly articulated. The Clean Energy Finance Corporation and the Australian Renewable Energy Agency are additional bodies that have been established to bring forward low emissions technology. The benefits for energy consumers from the combination of these policies and programs need clarity.

It is important that a simple structure be pursued that delivers minimal market distortions and complexities. In undertaking the modelling for this review opportunities should be identified to reduce the cost of the RET on consumers. Some opportunities to reduce costs could include:

- The appropriateness of targets, including a fixed LRET target and an uncapped SRES target.
- The administrative burden and cost-effectiveness of maintaining dual schemes i.e. the LRET and SRES, given that the administrative costs of these schemes are passed through by retailers to consumers.
- The inter-relationship and cumulative influence of national policies and programs.

Additional points identified for consideration by the Climate Change Authority relate to the renewable generation itself. In order to meet the RET some geographic areas could experience a high penetration of renewables. If this then requires additional network planning and upgrades it would be beneficial to outline how these cost are to be applied. It is important to ensure the benefits outweigh the additional costs that may be borne by consumers as a result of network upgrades required to meet the RET target.

Currently, the Queensland electricity market is experiencing an oversupply due to reduced demand and there is no investment signal for new base load generation. Investment interest over the short term will likely focus on peaking generation to meet the needs of Queensland's growing maximum demand (forecast growth of 2.5 per cent per annum). Therefore, the RET has the potential to bring forward supply ahead of demand which is expensive for the sector and further drives up the costs of the scheme.

Small-scale Renewable Energy Scheme

The Queensland Government considers the RET Review should evaluate the costs and benefits of continuing with a dual small and large scale technology scheme and targets, noting the marked changes to technology cost that has occurred recently for small-scale generation units.

If a dual scheme is to be maintained the Queensland Government considers that ad hoc changes to the scheme (such as multipliers for particular technologies) must be resisted. The Solar credit multiplier was an ad hoc way of achieving Commonwealth budget savings (allowing it to discontinue Commonwealth grant subsidies) – and it led to excessive and unintended costs to consumers.

Diversity of renewable energy access

Clarity should be provided on the range of national funding initiatives available such as those offered by the Australian Renewable Energy Agency and the Clean Energy Finance Corporation. Clearly defining how the various schemes interact to deliver a long term, cost effective, sustainable energy supply will assist in identifying the roles of the various schemes in promoting technologies. Consideration could also be given to how these national schemes interact with state feed-in-tariffs and other cross subsidies.

A technology-neutral approach is generally seen as the most efficient and cost effective way of achieving renewable targets. Consideration should be given to any possible market distortions if specific technologies are targeted or excluded under the scheme.

The RET and electricity markets

The impact of the RET on electricity prices should be considered in conjunction with the impact the carbon price is also having. The two schemes are both market-based with objectives to reduce emissions within the electricity sector and drive investment in lower emissions technology.

RET

Based on the RET the Commonwealth should give consideration to emerging cost pressures from the SRES and LRET combined. In the shorter-term residential PV uptake is maintaining upward price pressure for the purchase of small-scale renewable energy certificates. These certificates place an additional cost on the market, which in turn is placing additional pressure on electricity prices.

From an LRET point of view cost pressures are expected to increase over time as obligations to acquire large-scale renewable energy certificates increase to 2020. The Commonwealth is encouraged to ensure that in reviewing the scheme that

mechanisms to address these cost pressures are considered. The review should also take into consideration the potential impact on electricity prices if the LRET target is not met and the penalty rate is applied.

The deployment of sufficient renewable capacity to meet the LRET target will also be contingent on State and local approval of projects. The Queensland Government is undertaking a review of the *Sustainable Planning Act* in order to identify further ways of addressing issues of regulatory burden.

There is a strong argument to reconsider the LRET Target in light of changing market demand forecasts. The current fixed target of 41,000 GWhr in 2020 now represents an overall renewable outcome of about 25 per cent of likely generation in 2020. This compares with the original target of 20 per cent by 2020.

The environmental or economic benefit for such an (unintended) increase in the target is unclear. A formal carbon price has now been established to be the main driver of emissions reductions and, if anything, the RET target should be less aggressive than originally intended in 2007 when there was no carbon price.

The unintended increase of the target will lead to harmful economic costs and electricity price increases. There is evidence to suggest that cutting the target would lead to significant economic savings and reductions in price impacts compared with the 41,000 target. For example modelling undertaken by ACIL Tasman (for Tru Energy) has estimated that a target reflective of 20 per cent of total electricity consumption would halve the costs of the scheme to the economy and to consumers.

Returning the target to 20 per cent would also ease a very difficult new-renewable investment task (and one that could lead to generation oversupply later in this decade) into a more manageable proposition. There is regulatory risk for investors in renewables to continue to make investments if the target is unsustainable.

Carbon Pricing Mechanism

The commencement of the carbon price mechanism as part of the Commonwealth's Clean Energy Act has already had short term impacts with wholesale energy costs rising in Queensland by almost 30 per cent, contributing to an additional 10 per cent (approx) to total retail electricity prices. The impacts over the medium and long-term are expected to worsen, particularly if emissions reduction trajectories steepen.

Summary

The Government considers that the RET review needs to be robust. It needs to consider the appropriateness of the scheme's basic architecture and targets in light of the introduction of carbon pricing and recent market developments.

The Queensland Government considers at the very least there may be a strong case for a return to the original target of 20 per cent of Australian generation by 2020. It is essential the review's work be guided by comprehensive modelling of the scheme's costs and benefits across the electricity supply chain. This analysis needs to take into consideration any hidden costs associated with renewables and report on the environmental outcomes. Hidden costs include the complementary generation investment that is needed due to the intermittent nature of renewable energy and the inability of solar PV to improve network efficiency such as peak demand. If a net

benefit can not be demonstrated then options need to be considered in relation to a potential phase out of the scheme.

A particular focus should be on modelling opportunities to reduce the cost of the RET for consumers. Whether the RET is an efficient mechanism to reduce greenhouse gas emissions should also be addressed.

Finally the RET review should focus on delivering investor certainty that ensures both existing and future plant is developed in a viable and sustainable manner.