Submission from Sucrogen Australia Pty Ltd

Renewable Energy Target – Issues Paper

Sucrogen Cane Products is Australia's largest raw sugar producer and Australia's largest renewable energy generator from biomass. Sucrogen generates electricity from cogeneration operations at each of its eight sugar mills. In summary, Sucrogen has a total cogeneration capacity of approximately 200 MW and generates about 650,000 MWhrs of electricity each year of which approximately 400,000 MWhrs is exported. Further details are provided in attachment 1.

In recent years, cogeneration investments of $164m were made at Pioneer mill and $23 m at Victoria mill in the Burdekin and Herbert river regions respectively. In particular, the Pioneer cogeneration facility operates 10 months of the year providing power through the Queensland summer peak and beyond the normal 6 month sugar crushing season. Furthermore, power from sugar mill cogeneration facilities is supplied to the grid in locations that provide for lower transmission losses and improved grid efficiencies.

There were a number of considerations underpinning Sucrogen's cogeneration investments.

- The investments are relatively low return requiring long term investment horizons of 20 to 30 years for economic viability.
- A long term investment decision requires long term stable pricing regimes.
- The RET program and the ability to obtain Power Purchase Agreements (PPAs) on the back of RET were key to reaching financial closure on both projects.
- Confidence in the RET program was based on bi-partisan political support.
- RET based cogeneration improves competitiveness with the global price setters for raw sugar – Brazilian producers. (The Brazilian Government has a program to stimulate cogen for their sugar mills).

Sucrogen has mapped out a program of future opportunities which could be implemented if electricity and Large Generation Certificate (LGC) prices are sufficient to provide adequate returns.

The RET is scheduled for its two yearly review by the Climate Change Authority, which must report to Government by 31 Dec 2012. Sucrogen would like to address some of the issues that have been publicly raised by various interests in relation to the review.

1. RET should not be wound up completely.

Sucrogen's most recent investments under the RET were made in 2005 and 2010. Under a scheme closure, the revenue stream would immediately evaporate and these investments would not achieve their expected return. This would be a serious matter involving sovereign risk. It would not be unreasonable for affected parties to seek compensation from Government for such a policy.

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2. RET should not be frozen.

It is not exactly clear how this would occur. One scenario is that the current renewable energy target would be frozen and that any new renewable investment would not be accredited to generate certificates. Even ignoring projects which are already approved and are in the pipeline or under construction, as there is presently sufficient capacity in place to provide enough certificates to meet the current target, the most likely scenario is that the REC price will fall to zero. This has the same impact and consequences as scenario 1. Alternately, if insufficient capacity exists to meet a frozen target, the price will rise to $93, the pre-tax equivalent of the $65 shortfall penalty.

3. Target should not vary with demand

The existing RET target of 41TWh is a fixed proxy for 20% of renewable capacity by 2020. With falling power demand it has been suggested by some that the target should be based on 20% of actual demand. The proposal is that the target would reduce from 41TWh to 27TWh and would be subject to further adjustments over time as the demand forecasts were changed. This would create a high level of uncertainty in the scheme, raise financial risk premiums and create instability in REC price and the earnings from those who have already invested.

Sucrogen does not support any changes to the target. The industry needs maintenance of an "investment grade" policy and this cannot be achieved by altering the levers over which the Government has control. Sucrogen's understanding is that the fall in electricity demand can largely be attributed to falling demand growth, (related to lower GDP growth), with some small contribution from price demand elasticity. To have a policy that is dependent on movement in demand/GDP growth and subject to reviews every two years raises the risk premium and is unlikely to lead further significant investment. Essentially the policy would no longer be "investment grade".

4. The impact of the RET on power prices has been overstated.

Estimates from a number of sources indicate that the increased cost of electricity due to RET is less than 1 c/kW and represents only a small fraction of the recent increase in electricity costs. This is illustrated well in attachment 2 which shows an example of the build-up of projected power prices and a summary of the RET impact on a total household bill.

The data in attachment 2 is consistent with findings of O'Young of Port Jackson Partners who recently published the following results for New South Wales.

	2007 c/kwh	2017 c/kwh	% source of Increase
Wholesale Price	7.1	14.9	49%
Network Charges	7.5	16.9	59%
Retail Cost & Margin		3.6	23%
RET		0.9	6%
TOTAL	16	36.3	127%

The table above shows that while retail electricity price is forecast to increase by 127% to 2017, the impact of RET (at 0.9 c/kWhr) only makes up 6% of this increase in cost. The major increase in cost arises from wholesale price movements and network charges arising from peak demand for air conditioners.

The AEMC made similar findings about the cost of SRES and LRET forecasting a cost of 0.69 c/kwh in 2014. (The AEMC Source: *Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014*, Australian Energy Market Commission, November 2011.)

AGL have publicly announced recently that their estimate of the impact I between 0.5 and 1.0c/kwh

However, as renewable generation has negligible variable costs, the increased renewable generation encouraged by the RET also has the effect of reducing wholesale prices as the renewable generation is effectively bid and dispatched into the market at zero price thereby displacing the highest marginally priced generation at the time. Consequently, estimates of the nett cost impact of RET on consumer bills will be less than the forecasted 6% and negligible when compared with the network and energy price increases.

5. Conclusion

Sucrogen's view is that the policy is working, that the contribution to power costs has been overstated. Also, the cost contribution from SRES will decline as multipliers are decreased as planned.

We are also of the opinion that two-yearly reviews are too frequent, especially considering the time to conduct the review, table the report and the wait for a Government response. Reviews should be no less frequent than five-yearly.

In summary:

- RET is important to Sucrogen's business and international competitiveness.
- RET is not a significant driver of retail price increases.
- The scheme is functioning and should not be altered as a result of the biannual review.
- Reviews should be a minimum of five-yearly
- Long term policy stability is required to provide an appropriate environment for investment.
- Abandonment or freezing of the scheme amounts to sovereign risk and loss of confidence in Australian Government policy in the renewable power industry.

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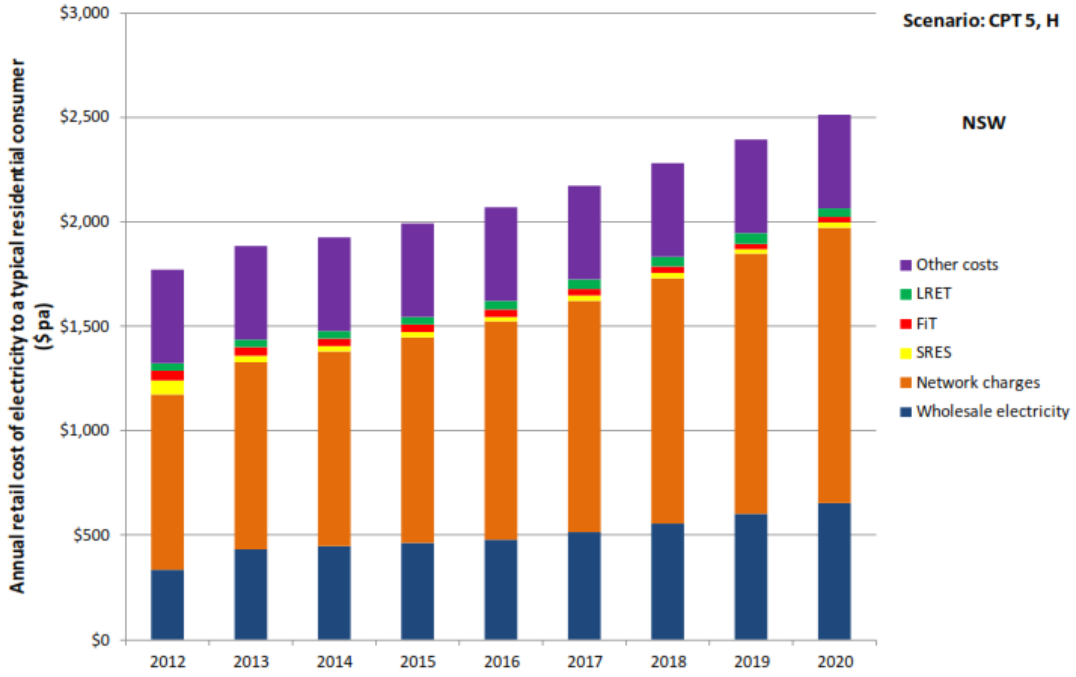
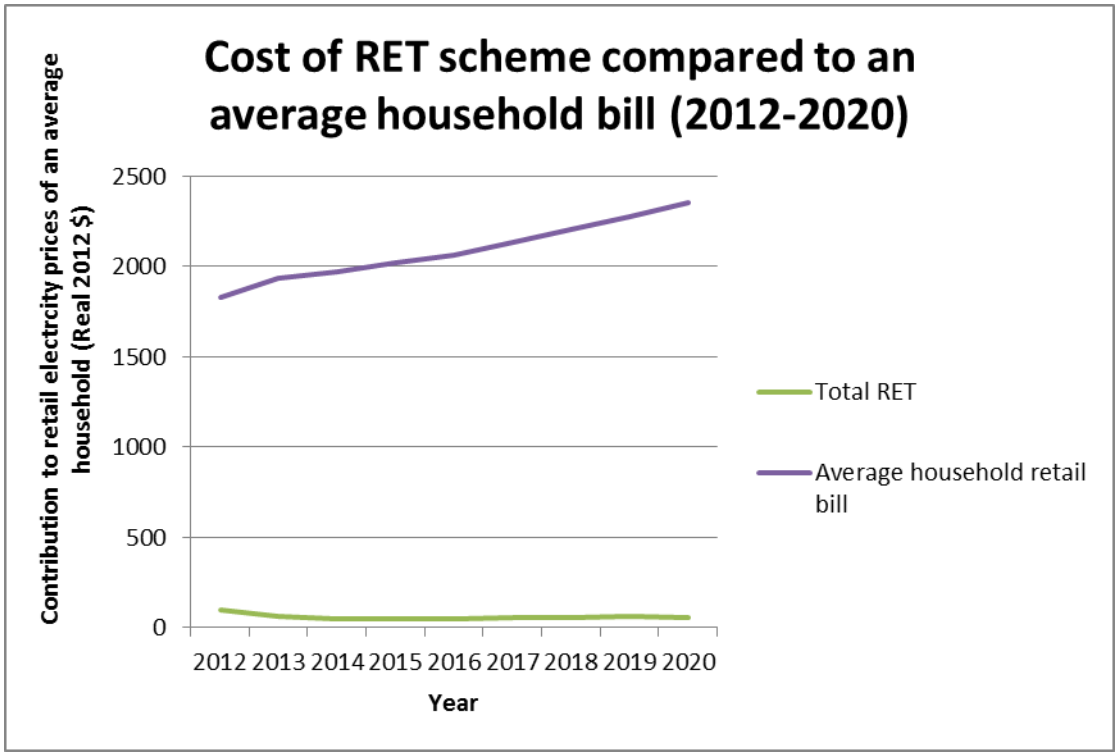
Attachment 1

Sucrogen Portfolio as May 2012 (estimate)

	Installed generating capacity (MW)	Generation 2012 (GWh) estimate	Export 2012 (GWh) (meter) estimate
Herbert			
Victoria	24	62	32
MKD	8	24	2
HBT Region	*32*	*86*	*34*
Burdekin			
Invicta	50	154	108
Pioneer	68	285	220
Inkerman	10	32	5
Kalamia	9	29	7
BKN Region	*137*	*500*	*340*
Proserpine	17	40	14
Plane Creek	12	21	1
Sucrogen Total	197.8	647	389

Attachment 2





Analysis provided by ROAM Consulting on behalf of The Clean Energy Council
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