Amcor Submission to the Renewable Energy Target Review 2012

Introduction

Amcor Packaging (Australia) Pty Ltd is a large manufacturer of paper and packaging products in Australia for the food and beverage industries as well as manufacturing general packaging products. Amcor Australasia operates over 50 packaging and recycling sites in all States and Territories and is a leading manufacturer of fibre, metal, flexible plastic and glass packaging. Amcor employs over 4,000 people in Australia and has an energy budget of around $100 million per year.

A number of the products that Amcor manufactures such as Paper, Carton Board and Glass Containers are Energy Intensive and Trade Exposed (EITE) and so, despite the provision of EITE assistance, are significantly impacted by the rising cost of the Renewable Energy Target (RET) scheme.

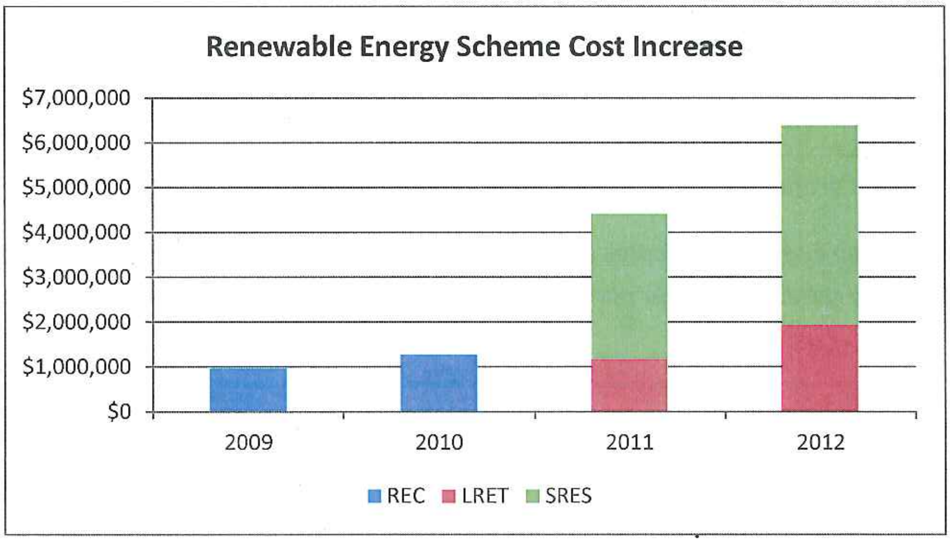
Amcor welcomes the review into the effectiveness of the current RET scheme and also the opportunity to make some suggestions as to how to ensure the clean energy objectives are achieved at lowest cost to economy.

The RET scheme is a policy mechanism to assist with the reduction in carbon intensity within the Australian Economy. While the growth of renewable energy sources within Australia will deliver this outcome, the inclusion of other alternative clean energy sources will expedite carbon intensity reductions.

Clean energy sources such as co-generation, reuse of waste heat and waste to energy applications should be encouraged and recognised under an expanded Clean Energy Target. Amcor believes that a Clean Energy Target along side the existing price on carbon would provide the necessary signals to energy users to drive energy efficiency.

Amcor is particularly concerned by the exponential growth in the cost of the RET charge which can wholly be attributed to the SRES component of this scheme. Figure 1 below show's how the expanded RET Scheme, particularly how the SRES has impacted on Amcor's energy costs.

Fig 1. Amcor's RET costs 2009 – 2012 (RET Assistance not included)



Eligible Renewable Energy Sources

The list of eligible renewable energy sources covered by the RET is very rigid and limiting; it does not encourage other alternative energy activities that can significantly increase clean energy generation.

Amcor believes the current Renewable Energy Target should be expanded to become a Clean Energy Target.

Amcor suggests that the following activities be included in the Clean Energy Target:

- Cogeneration (gas fired or other fuel)
- Waste Heat Recovery from industrial processes (here the heat energy would receive RECs along similar lines to solar hot water systems).
- Waste to Energy (not just biomass but any waste that would otherwise go to landfill). This could include waste packaging and materials which can now be manufactured on a sustainable basis. It would also help encourage the collection and processing of all waste packaging which is currently land-filled.

There is no valid reason why these activities should not be covered by the scheme which already allows electricity generation from waste coal mine gas and technologies such as reverse cycle hot water heat pumps.

While wind power is intermittent at best and is often located far from load centres these technologies are all base load technologies and would typically be co-located with large industrial loads therefore virtually eliminating any additional network requirements and minimising line losses.

Amcor supports the inclusion of new capacity of waste coal mine gas in the RET so long as the above energy sources are also included. By expanding the energy sources which could be included in the Clean Energy Target, industries would be incentivised to implement projects as certificates would be provided. These certificates should be provided to those who implement clean energy initiatives. These certificates could then be acquitted by the entity which implemented the project to cover their obligations or be on-sold to retailers thus reducing the overall Clean Energy Target liability.

Recommendations:

R1. The Renewable Energy Target should be re-named the Clean Energy Target and eligible activities should include other Clean Energy options as outlined above.

R2. Clean Energy Certificates should be provided to the entity who implements the project.

R3.Holders of Clean Energy Certificates can acquit them to cover their clean energy costs or on-sell them to electricity retailers or other parties.

State and Territory Energy Efficiency Schemes

Now that Australia has a Carbon Pricing Mechanism to complement the RET, Amcor sees no reason for State Energy Efficiency Schemes to be retained; particularly for Commercial and Industrial energy consumers.

These schemes are not cost effective and only add to energy costs and compliance costs. They are really an energy efficiency cross-subsidy from large energy users to small energy users.

Amcor's view is that they should be wound up or at least limited to households and SMEs.

For large energy users the EEO Program and State based programs such as the Victorian Environment Resource Efficiency Plans (EREP) has been in place for many years. Through these programs large energy users have implemented many energy efficiency projects. This process means that most of the cost effective energy efficiency projects have already been implemented and the remaining economically viable opportunities are limited.

Mandatory energy efficiency schemes may be appropriate for small to medium energy users who have not been part of any existing schemes. If such a scheme was deemed necessary then Amcor believes that this should be a national scheme with coverage across all jurisdictions. This approach would provide consistency and certainty for businesses which operate in more than one State.

Under this national approach, funding should only be required from businesses captured by the scheme. Large businesses who have already implemented energy efficiency projects would not benefit to the same degree as those smaller businesses who have not implemented energy efficiency improvement projects therefore the application of the program should be restricted to the businesses and individuals not currently captured by existing EEO or equivalent state based schemes. Following the transition to a national scheme, Amcor does not believe that State based systems should be maintained.

If the Renewable Energy Target does become a Clean Energy Target then there is no need for a National Energy Efficiency Scheme for large energy users. The combination of the Carbon Pricing Mechanism and the Clean Energy Target is more than sufficient to bring about major transformation of industry.

Recommendations:

R4. State based energy efficiency schemes should be abolished, and replaced by a single national energy efficiency scheme.

R5. Coverage of the National Energy Efficiency scheme should be limited to individuals and businesses not covered by EEO or other equivalent State based schemes.

R6. The cost to administer the National Energy Efficiency Scheme should only be applied to entities covered by the scheme, namely individuals and SME not covered by EEO.

Target Trajectory & Renewable Power Percentage (RPP)

Amcor believes that a fixed target in GWH for renewable electricity generation is required for market certainty rather than a percentage target which may deliver a very different result given electricity forecasts out to 2020. These forecasts may vary greatly depending on the prevailing economic climate.

Currently the RPP is published at the end of March each year. This is too late for businesses that set their budgets in January/February for the coming financial year. By setting a fixed GWH target for 2020, a straight line trajectory could be calculated. This trajectory could be reviewed every 3 years which would allow for unplanned fluctuations in energy usage to be allowed for. This review could occur in the first and second quarters of each review year with the results being published early in the third quarter thus allowing businesses to adequately budget for the costs of the scheme.

This approach would allow for the scheme to continue past 2020 at a fixed volume thus providing certainty for clean energy generators and for energy users. This approach would also remove the need for the expansion of the LRET target as certificates generated under the LRET could be included in the Clean Energy Target.

Amcor does not see any reason to increase the LRET target so that LGCs generated by CEFC funded projects are counted as additional to the existing target; they should be eligible for inclusion within the target and will reduce the requirement for a massive investment in further renewable energy projects.

As the renewable energy costs are now a very significant component of Amcor's energy budget Amcor believes the RPP should be published no later than February each year in order that these costs can be budgeted for.

Recommendations:

R7. A Clean Energy Trajectory should be published for 2013-2020.

R8. This Trajectory should be reviewed every three years.

R9. Reviewed Trajectories should not be published later than the end of February each year.

EITE Exemptions (and Assistance)

All EITE businesses must apply to the Clean Energy Regulator for Partial Exemption Certificates (PECs) for each EITE activity, based on prior year's actual production. The application for assistance must be audited by a registered auditor as per the REC Regulations.

Now that the Carbon Pricing Mechanism has been introduced with a similar Jobs and Competitiveness Assistance application procedure, the application process for the 2 forms of assistance should be harmonised and streamlined so only one application and one 3rd party audit of the energy and production data is required.

As PECs are not tradeable certificates, they are only able to be surrendered to a company's current electricity retailer who is the liable entity for the RET. The PECs have no face value and their value has to be negotiated between the EITE energy consumer and their energy retailer. This has caused problems for both customers and retailers.

The current arrangement of PECs is a barrier to competition (it makes it difficult for an EITE business to change energy retailer during a calendar year as they are issued in current retailer's name for the whole of the year).

Amcor is of the view that PECs should be replaced by REC certificates that would be fungible with LREC's and STC's and issued to EITE businesses via their REC Registry account for use as necessary to off-set ever increasing RET costs rather than PECs which are issued in the name of their energy retailer.

This will also encourage EITE businesses to better manage their renewable energy portfolio and invest directly in renewable energy projects as they would be able to monetise the RECs (LRECs and STCs) whereas they cannot now monetise the PECs.

This would more closely align the RET assistance with the Carbon Pricing Mechanism assistance which is issued as an AEU certificates directly into the liable entity's ANREU account.

These changes would benefit both EITE businesses and renewable energy proponents and would have no impact on the broader community. They would also significantly reduce compliance costs and the reporting burden.

Furthermore the partial exemption framework should be extended to apply to the whole burden of the RET, and not just to volumes and prices above those which would have applied under the original pre-2009 Mandatory Renewable Energy Target for that year.

Extending or expanding the current exemption arrangements would impose modest additional costs on un-exempted energy users. However, as a recent Ai Group survey found, business energy expenses only account for a high share of costs for about a quarter of businesses. This degree of energy intensity means such businesses will tend to be either emissions intensive trade-exposed, or able to pass costs through to their customers. Nearly three quarters of businesses spend 2 per cent or less of their sales revenue on energy.

The original MRET did not include an exemption for emissions intensive trade exposed industries, and this was the Government's justification for not including this component in the exemption framework when the RET was expanded in 2009. However, the competitive environment for much of Australian industry has deteriorated sharply since 2001; business is under pressure from the prolonged strength of the dollar, and what was an acceptable cost a decade ago is now much more difficult for globally exposed large energy users. The regulations should therefore be amended to extend the scope of exemption.

Recommendations:

R10. Assistance calculations under Partial Exemption Certificates and Jobs and Competitiveness should be streamlined and require only one audited energy and production data application.

R11. Partial Exemption Certificates should be replaced by Clean Energy Certificates and should be issued in the name of the EITE business.

R12. The partial exemption framework should be extended to apply to the whole burden of the RET.

Small Scale Renewable Energy Scheme

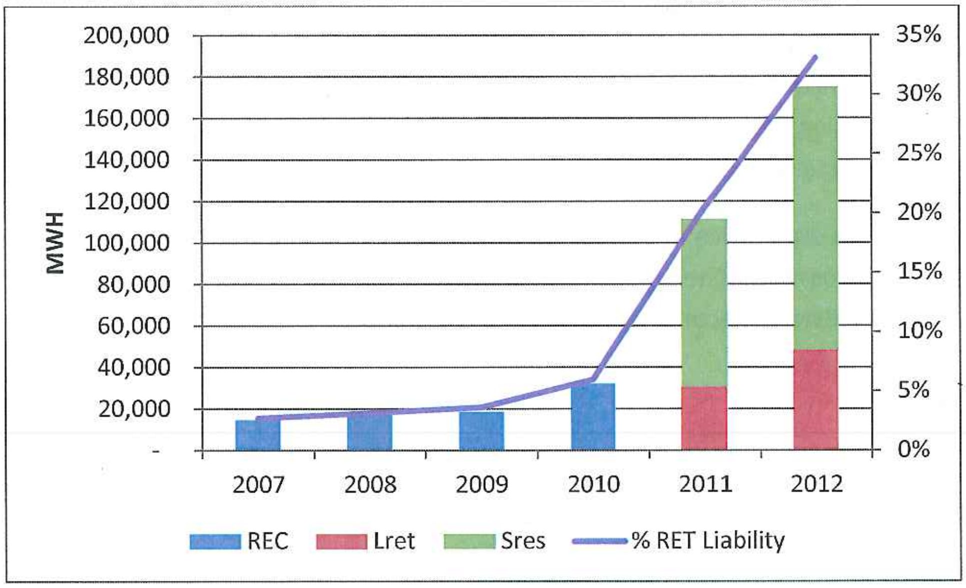
Amcor does not believe the introduction and regulation of SRES has delivered an efficient uptake of small scale renewable energy options. As it is presently structured the SRES system delivers very high cost renewable energy and it has been allowed to run for too long without being reigned in.

The uncapped nature of the SRES, together with deemed volumes, the up-front multiplier and very generous feed-in tariffs, have combined to deliver cost on business which have grown exponentially without delivering comparable benefits from an environmental or economic perspective.

Furthermore, the Renewable Energy Regulator's (now Clean Energy Regulator's) annual setting of the STP has been inaccurate and original estimates have been found to be gross under-estimates and have caused budget pressure for many businesses.

Figure 2 below shows how SRES costs have ballooned and also that cost of renewable energy percentage of power purchased is now around 30%. This perverse outcome is indefensible when the actual level of renewable energy generation in Australia is approximately 8.2%. If the RET costs were at this level now it would be more reasonable and would still be on track to achieve 20% renewable energy by 2020.

Figure 2. Amcor's Renewable Energy Costs and % Mandatory Renewable Liability



This is what happens when a scheme such as the RET applies different considerations to different technologies. Runaway costs for little real benefit.

As the figure above shows the renewable power percentage is now approximately 30% of total electricity use due to the split of SRES and LRET and the uncapped SRES. It makes nonsense of the renewable target of 20% by 2020. According to these figures we have already reached the target. This creative accounting applied to SRES undermines the integrity of the entire renewable target scheme and should be removed.

Amcor's position is that SRES should be wound up and all renewable energy projects, small and large should be applied to the same scheme. If this is not a palatable option then the SRES % should be capped each year so that the SRES% and the LRET% are equivalent to the total GWH requirement for the given year.

As the multiplier will be eliminated from July 2013 this should help reduce the over-hang of certificates but there should be no requirement for all STCs to be sold each year. STC providers should have to operate in the same market as all other clean energy project proponents.

Recommendations

R13. The SRES scheme should be abandoned and all renewable energy improvements undertaken should be addressed in the same scheme.

R14. The SRES volume should be capped to a firm GWh volume consistent with the annual target

Conclusions

Amcor welcomes the opportunity to provide input to this review. Amcor has detailed a range of recommendations throughout this submission and we believe that the implementation of these recommendations will deliver a significant improvement in the efficiency and effectiveness of the scheme.

Amcor believes that the implementation of a Renewable Energy Target is too narrow in its nature to adequately deliver the carbon intensity reductions required. To make this process more efficient in achieving this goal Amcor believes that the RET should be expanded to become a Clean Energy Target thus incentivising adoption of a range of technologies including waste heat capture, cogeneration and waste to energy.

The existing system is duplicative for energy intensive businesses and a streamlining of information provision would address this. The SRES system should be abandoned and all clean energy options rolled into one thus restoring economic integrity to the system.

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