AEMC

Australian Energy Market Commission

Level 5, 201 Elizabeth Street Sydney NSW 2000
PO Box A2449, Sydney South NSW 1235

P – 02 8296 7800
F – 02 8296 7899
E – aemc@aemc.gov.au

ABN 49 236 270 144
www.aemc.gov.au

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Submissions
Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

By email: submissions@climatechangeauthority.gov.au

Dear Sir/Madam

Australian Energy Market Commission submission on Renewable Energy Target Review Issues Paper

The Australian Energy Market Commission (AEMC) welcomes the opportunity to provide a submission on the Issues Paper for the Climate Change Authority's (CCA) review of the Renewable Energy Target ("the review").

The AEMC is responsible for making and amending the national electricity, gas, and energy retail rules and conducting reviews of the energy markets. The AEMC is an independent, national body responsible to the Council of Australian Governments, through the Standing Council on Energy and Resources (SCER). The SCER is comprised of the energy and resources ministers of each Australian State and Territory.

As noted in your Issues Paper, in 2011 the AEMC undertook a review of the impact of the enhanced Renewable Energy Target (RET) on energy markets, following a request for this advice from the SCER. The AEMC was requested to consider the impact of the enhanced RET on the price of electricity to retail customers, the level of emissions, and the security and reliability of the electricity supply.

The conclusions of our review highlight the importance of carefully considering how any changes proposed to the RET as a result of the CCA's review could impact on the electricity market. The main conclusions of our review that may be relevant to the CCA's review and illustrate the potential impact of the RET on electricity markets include:

- Prices in the wholesale electricity spot market have been at historically low levels in recent years due to a relatively high level of generation, given recent falls in demand levels. Modelling undertaken for the AEMC suggested that the Large Scale Renewable Energy Target (LRET) distorts the balance of supply and demand in the wholesale electricity market. This occurs as the additional revenue renewable generators have access to through the sale of certificates serves to increase the level of renewable generation beyond the quantity that would have been otherwise developed. This leads to lower prices in the wholesale electricity market than there would have otherwise been which results in lower revenues and profitability for all generators. This may affect incentives to invest in new generation and impact the longer term reliability of the electricity supply.

- The uncapped nature of the Small Scale Renewable Energy Scheme (SRES) has meant it has been difficult to forecast its impact and cost. In particular, the take up of solar PV has been significantly higher than expected in recent years. This has led to a number of policy changes at a Commonwealth and jurisdictional level, greater unpredictability of retail electricity prices for consumers as the compliance costs of the SRES are passed onto all consumers, and undermined the achievement of the LRET.

- The cost of abatement differs significantly between the LRET and SRES. Modelling undertaken for the AEMC suggested that the cost of abatement with a price on carbon emissions under the LRET ranged from $40-$50 per tonne of C02-e, while the cost of abatement under the SRES ranged from $220-$450 per tonne of C02-e in $2010/11. Given electricity consumers ultimately pay for the costs of the RET, we consider it is important to be able to demonstrate to customers that the policy design of the RET is an efficient way to achieve its objectives.

Since the AEMC's review concluded there has been increasing evidence of lower energy demand, and forecasts of the future growth of energy demand have decreased.[1] The CCA's Issues Paper notes these trends. There are a range of factors affecting energy demand, including the structural changes in the Australian economy, installation of solar PV and price elasticity effects. Given that the LRET target was developed based on a forecast of future energy demand, we consider that the recent reductions in demand forecasts emphasise the importance of considering whether any proposed changes to the RET as a result of the review can be expected to be effective in, and adapt to, developments in the electricity market in the future.

We would also encourage the CCA to have regard to the impact of the design of the RET on retail competition for electricity. As the Issues Paper notes, it is mainly retailers who are the liable parties for meeting the target. Any changes to the design of the RET that increase the costs or risks for retailers are likely to lead to higher costs for consumers and/ or less vigorous competition in retail markets.

Attracting investors into the energy market will be important to meet the Commonwealth Government's environmental objectives and to continue to maintain reliability of supply. The AEMC recognises that it is good practice to periodically review policies such as the RET, and it is important that such reviews are conducted in a transparent and consultative manner, as the CCA is doing. Nevertheless, it important to consider the benefits of any changes to the RET with the potential that investors will perceive that changes to the policy increases risk, which will ultimately increase costs for consumers.

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[1] For instance, the Australian Energy Market Operator's (AEMO's) 2012 National Electricity Forecasting Report noted that the annual energy that is sent out for 2011/12 is projected to be almost six per cent lower than was forecast in late 2011. AEMO also forecasted that the average growth in annual energy sent out over the next 10 years would be 1.7 per cent, which is a reduction from the 2.3 per cent that was forecast in late 2011.

We would be happy to discuss our submission further with you, and to provide any further advice that the CCA would find helpful regarding the impact of any potential changes to the RET on the energy markets. If you have any questions regarding this submission or would like further information about the AEMC's work on the impact of the enhanced RET on energy markets, please contact me or Paul Smith on (02) 8296 7800.

Yours sincerely

Steven Graham
Chief Executive