Minerals Council of Australia

Mr Bernie Fraser
Chair
Climate Change Authority
GPO Box 1944
Melbourne Victoria 3000

Dear Mr Fraser,

The Minerals Council of Australia is pleased to offer these general comments for your review under the Renewable Energy (Electricity) Act 2000 of the operations of the Renewable Energy Target.

The Minerals Council of Australia is the peak industry organisation representing Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. The MCA's strategic objective is to advocate public policy and operational practice for a world-class industry that is safe, profitable, innovative, and environmentally and socially responsible attuned to its communities' needs and expectations.

MCA member companies produce more than 85 per cent of Australia's annual minerals output.

The minerals industry recognises that its past success and future prosperity is dependent on a sound and expanding national economy, an educated and cohesive society and a sustainable natural environment.

In particular, the MCA recognises that the future of the Australian minerals industry is inseparable from the global pursuit of sustainable development. Through the integration of economic progress, responsible social development and effective environmental management, the industry is committed to contributing to the sustained growth and prosperity of current and future generations.

Yours sincerely,

Sid Marris
Director – Industry Policy
14 September, 2012

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RENEWABLE ENERGY TARGET REVIEW – 2012

Summary

The Minerals Council of Australia has long opposed the expansion of a mandatory Renewable Energy Target, as enacted in 2009, on the grounds it is costly and a poor infant industry assistance policy. It is a questionable intervention in a functioning energy market. The MCA contends there is no market failure that might justify such intervention. Were there a market failure, the RET would not be the most efficient or effective response.

Energy policy requires a balance between energy security and reducing emissions. This is not a competition between sources; rather it is recognition of the need to develop innovative ways of meeting these dual policy goals. Renewable energy is vital part of the suite of energy sources for the minerals industry as is new technology to lower emissions from fossil fuels or techniques for safe and permanent storage of greenhouse gases. The mineral sector is both a user of renewable energy as well as investing in research and development of low-emissions technologies.

A mandatory renewable energy target in various forms has been in place in for over a decade. RET schemes have changed their composition numerous times in response to ad hoc policy initiatives. Originally designed to subsidise large-scale schemes, the RET was adjusted to allow for the entry of smaller scale installations (household roof-top solar panels) and then changed again when the more generous subsidy for smaller schemes threatened to crowd out large scale development. There has been an increase in renewable energy generation but at a very high cost.

The MCA has argued since 2009 that the expansion of a mandatory Renewable Energy Target (RET) in the way implemented by the Australian Government would:

- raise electricity costs;
- have a negative effect on jobs in the overall economy;
- exacerbate concerns about the reliable and uninterrupted supply of energy;
- distort the operation of a well-designed emissions trading scheme; and
- achieve no *additional* abatement more than a well-designed trading scheme.

Much of this criticism has unfortunately come to pass. In its present form, the RET will:

- overshoot the target of 20 per cent renewables by 2020 because of a fall in 2020 demand projections since the target levels were set;
- do so at very high cost and inequitably (with users today paying for generation deemed to occur later);
- distort the gradual transition of energy markets; and
- encumber business with uncapped and high costs for subsidies, particularly for small scale renewable energy schemes (SRES, typically household solar panel and hot water systems) because of poor design and a series of inchoate policy shifts.

These excesses in the scheme should be addressed.

More fundamentally, the RET contradicts, distorts and complicates the development of an emissions trading scheme. While a properly-designed emissions trading scheme is technology-neutral in seeking to reduce emissions at least cost, the RET requires the deployment of particular (and in many cases) more expensive renewable energy technologies. In the case of the RET, the imperative is not lower emissions, but the expanded deployment of a particular sub-set of energy technologies.

This fundamental inefficiency is manifest in the scheme inability to adjust to market conditions – such that the "20 per cent target" for renewable energy generation (originally set at 45TWh in total, now 41TWh for large schemes - LRET and the balance from uncapped smaller schemes – SRES) is now likely to amount to 26 per cent (and again will see today's users pay a premium for future capacity). This inefficiency has been highlighted by producers such as Origin Energy and TRUnergy on the back of projections from Australian Electricity Market Operator.

The RET is costly and inefficient in itself and in addition remains a contradiction to the central policy goal of a properly designed, technology-neutral, least cost emissions trading scheme which is introduced in a phased manner and aligned with international efforts. It should be removed.

Minerals industry policy principles

The Minerals Council of Australia's approach to the RET is consistent with its general policy position on climate change management.

The MCA and related representative bodies have consistently argued that a comprehensive measured transition to a low emissions global economy requires the alignment of three key policy pillars:

- a global agreement for greenhouse gas emission abatement that includes emissions reduction commitments from all major emitting nations;
- market-based policy measures that promote the abatement of greenhouse gas emissions at the lowest cost without compromising the competitiveness of Australia's internationally traded sector; and,
- substantial investment in a broad range of low emissions technologies and adaptation measures.

The "Clean Energy Future" scheme in its present form fails these objectives and thus the Government's stated objectives of reducing emissions and improving Australia's carbon competitiveness. (See Box 1).

Box 1.

The proposed design, as set out in the Clean Energy Act, contains multiple serious flaws:

- it will impose the world's first economy-wide carbon tax at a time when other nations are delaying or moving away from climate policy action;
- even Treasury modelling based on unrealistic assumptions shows the carbon pricing scheme will reduce national income by 1 trillion dollars by 2050. Growth in real wages and productivity will also slow;
- the proposed carbon tax equivalent reduction in the Fuel Credit Scheme will impose a direct cost of 6.33 centre per litre on more than 60,000 businesses, not just 400-500 "big polluters" as claimed by the Government;
- it contravenes the principle of budget neutrality, by converting an environmental measure into a revenue raising exercise, and seeks to "pick winners" through a range of multi-billion dollar schemes confined to arbitrarily selected technologies;
- it will fail to deliver investment certainty – the delays in determining annual caps and a 2020 target will prevent prudent planning, while the absence of certainty of assistance (from the Jobs and Competitiveness Program) will mitigate against sensible planning by affected firms; and
- it will compromise energy security, in providing inadequate and arbitrary transitional assistance to the power generation sector, adding new complementary measures that distorts markets including funding schemes that discriminate between clean energy technologies.

The MCA is an advocate for an open, competitive and integrated national energy market that is:

- governed by nationally consistent regulation of generation, transmission and distribution to promote efficiency and to eliminate unnecessary costs and risks;
- transparent, with no artificial barriers to entry;
- non-discriminatory and therefore non-distortionary between energy sources;
- devoid of price controls, unless and only in circumstances of demonstrable 'market failure' ;
- capable of sustaining long-term supply contracts; and
- attractive to further investment in world's best practice generation and transmission capability and in new technologies to meet the burgeoning energy demands of the future and the need to reduce greenhouse gas emissions.

Market intervention principles are a crucial element in this discussion. The mining and minerals processing sector acknowledges the need for regulation as an essential element underpinning the industry's ongoing 'social licence to operate'. Regulations should be focused, however, on enhancing rather than impeding the minerals (and other) industry's contribution to achieving an enduring balance between the financial viability of the industry, its environmental performance and its positive social contribution.

Accordingly, the MCA strongly advocates the principle of minimum effective regulation – specifically, that the development of good regulatory process should be informed by the following principles:

- regulation should only be adopted in cases of demonstrated market failure, and there should generally be an assumption that the open and transparent operation of markets will lead to efficient outcomes;
- regulatory approaches should not be used unless a clear case for action exists, including an evaluation of why existing measures are not sufficient to deal with the issue;
- regulation should only be adopted after a range of policy options (including self-regulatory and co-regulatory approaches) have been assessed and found wanting;
- the regulation represents the greatest net benefit to the community;
- the regulation developed is the most efficient means of achieving the desired outcome at least cost to industry;
- effective guidance is provided for both regulators and stakeholders to ensure that the regulations are correctly implemented and monitored;
- mechanisms such as sunset clauses or periodic reviews are built into the legislation to ensure that the regulations remain relevant over time; and
- there is effective consultation with stakeholders at key stages of the development and implementation of the regulation.

The MCA and related representative bodies have argued that the policy/legislative response adopted by the Gillard Government – the Clean Energy Future package – fails to meet this goal and thus we have called for it to be withdrawn and redesigned.

The RET is a poor policy response in its own right. So too, is the Clean Energy Future package. There is a better way to manage climate change in a manner consistent with the MCA's three policy pillars.

Excessive costs

The RET represents an extra cost to users to subsidise new technologies through an inefficient transfer of costs onto other energy generators and then onto energy users. The Electricity Users' Association of Australia (EUAA) has calculated the transfer has cost energy users an additional $2 billion in higher electricity costs between 2001 and 2010 and that an additional $7.6 billion will be extracted over the coming 20 years. In 2012 alone, this is equivalent to a cost of $10.50 a megawatt hour adding 25 per cent to the wholesale price or 10 per cent to the

retail price of electricity.[1] End users report the prices are very volatile, undermining investment plans. The higher costs reported by the EUAA do not include the increased costs flowing from changing distribution networks to accommodate new, intermittent power sources, often remote from traditional grid corridors.

The Minister for Energy Resources and Tourism, the Hon. Martin Ferguson AO has acknowledged the size of the subsidy wrought by the RET stating it represents "*a bonus to the renewable sector of the order of another $20 to $30 billion in Commonwealth Government support*".[2] ACIL Tasman has suggested the total cost subsidy is worth up to $53 billion by 2030.[3] The cost of this is borne by consumers (business and household).

The NSW Independent Pricing and Regulatory Tribunal describes the RET as "a substantial cost to electricity retailers and their customers". In 2012/13 retailers will be required to surrender renewable energy certificates equivalent to 33.1 per cent of their electricity sales. These costs have been a major driver of recent increases in electricity prices through direct costs of buying certificates and additional transmission and distribution capacity.

Among its observations:

> *The distributional impacts of the RET given it involves a significant transfer of costs from renewable generators to electricity customers. In our view industry assistance is best provided transparently from government revenue, rather than through electricity prices, due to the regressive nature of higher electricity prices…*
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> *The upfront deeming of certificates for up to 15 years. While this makes the scheme simple in its administration it introduces a disconnect between the timing of creating certificates and the generation of renewable energy, with* ***current electricity customers paying today for renewable energy deemed to be generated over the next 15 years****. (emphasis added)…*
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> *The overall design of the scheme, which means the amount of electricity actually generated from renewable sources will be significantly lower than the amount customers are paying for. Specifically while customers are paying for over 33 per cent of the electricity to be source from renewable technologies in 2012, the proportion of electricity actually being generated by renewable technologies under the mandatory schemes is likely to be around 10 per cent…*[4]

The evidence is strong that the RET is an expensive, narrowly-focussed scheme where large users end up paying now for renewable energy yet to be delivered. In addition, business is helping to underwrite overly generous small-scale renewable energy (SRES) certificates which made up 23 per cent of the certificates issued in 2012. Feed-in-tariffs costs have also been hidden in distribution charges, for example, via the NSW Climate Change Fund.

The expensive bringing forward of RET technology (overwhelmingly wind) is coming at a time when the demand profile of Australia's east coast market, the National Electricity Market, has changed markedly. When the 20 per cent target was set in 2009, AEMO expected demand to reach 300TWh in 2020. In 2011 this was now estimated at 268TWh. As the chief executive of Origin Energy, Grant King, noted in May 2012, this meant at present rates the 20 per cent target would in fact reach 26 per cent by 2020.[5] Work commissioned by consultancy ACIL

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[1] Report for Energy Users Association of Australia by CME: Carbon + Energy Markets, Renewable Electricity in Australia: Outcomes and Prospects, October 2011.

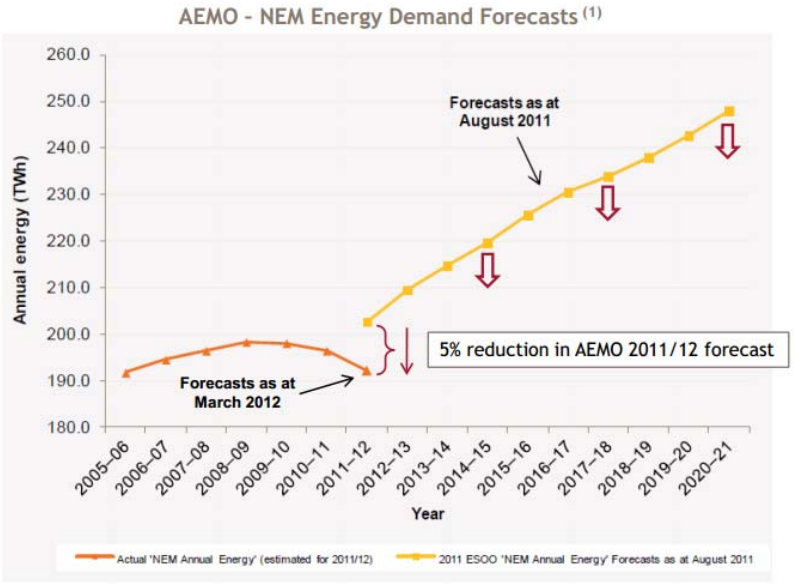
[2] The Hon. Martin Ferguson AO MP, Address to National CCS Week Conference, November 2010.

[3] ACIL Tasman, Achieving a 20 per cent RET: costs of current legislation and possible modifications, prepared for TRUEnergy, 5 September, 2012.

[4] The MCA acknowledges that that IPART does not view the inclusion of other forms of energy, such as coal waste gas generation, as appropriate within the RET. The MCA disagrees on this point.

[5] Grant King, Managing Director, Origin Energy, Flexibility to Respond, address to Macquarie Australia Conference, 2 May, 2012.

Tasman on behalf of energy supplier TRUenergy suggests the cost of the RET is a subsidy of $53.3 billion through to 2030, compared with $28.1 billion if a "real" 20 per cent target was deployed.[6]



The RET is therefore a policy where end users are forced to pay a second premium - both paying for today's renewable energy investment and for generation that is deemed to take place in the future.

The remote locations where minerals companies operate add a further important dimension. Gas and diesel make up the majority of the energy supply to provide the stable, reliable generation that large scale, energy intensive operations require. Getting the balance between energy sources will differ greatly from site to site. For this reason the existing exemptions for self-generation facilities are appropriate.

Inefficient policy

The policy failing of the scheme is the inefficiency of the allocation of funds according to the long standing principle of "least cost abatement". The Productivity Commission noted in its submission to the Garnaut Review that the MRET displaces other generation sources particularly gas, raising abatement costs.

> *Reserving a proportion of electricity generation for renewable energy sources changes the generation mix in a way that increases abatement costs for* ***no additional emissions benefit reduction*** *[emphasis added]. These problems would be further compounded if state-based renewable energy target schemes were retained (or introduced).* [7]

The Grattan Institute estimated in 2011 that RET delivered a carbon equivalent cost of between $30 and $70 a tonne.

Minerals companies are significant users of energy. Stable, reliable energy supply is crucial to the productivity of the operation – either at the excavation and extraction phase, initial processing, or smelting and refining (on-site or at other locations). The remote nature of many mining activities means the predominant fuel is gas or diesel.

The priority for minerals companies is to focus on the most efficient, least-cost options to reduce the sectors particular energy profile. This means concentrating the sectors time and resources on the energy efficiency of

[6] ACIL Tasman, op.cit.
[7] Productivity Commission, What Role for Policies to Supplement an Emissions Trading Scheme: Submission to Garnaut Climate Change Review, 2008, p xvii.

existing plant and equipment, development of new technology or the use of supplementary sources of alternative energy sources where operationally appropriate. A dollar spent paying higher prices for grid electricity means that money cannot be spent on the development of improvements tailored to the business. This is inefficient and, potentially counterproductive.

Table 2.1: Mining Sector Energy Sources (2006/07)

Energy Source	Total Primary Energy Consumption (PJ)	% of Sectoral Requirement
Natural Gas (includes coal methane)	240.4	52.7%
Diesel	128.1	28.1%
Electricity	71.5	15.7%
Other	16.5	3.6%
Total	456.6	100.0%

Source: GHD, Low Emissions Energy Options for Mining Operations, prepared for the MCA, May 2009 (unpublished)

No longer required

The Productivity Commission has written extensively on the issue of the potential harm of multiple policy measures, including in its submissions on the design of an emissions trading scheme (ETS) in Australia. [8]

By allowing the market to achieve an efficient outcome through the decentralised price-responsive action of everyone in the economy, an effective ETS could do the 'heavy lifting'. In fact an ETS could shoulder so much of the abatement effort that other policies would be needed only to fill any gaps in its reach. Accordingly, much of the current disjointed and fragmented patchwork of climate change policies throughout Australia would be expected to be redundant.

This advice was to some degree reflected in the report by Professor Ross Garnaut in 2008 when he noted:

> *Programs and other regulatory interventions – whether federal, state or territory – that seek to reduce emissions from specific activities covered by the emissions trading scheme will not result in lower overall emissions. They will simply change the mix of mitigation activities that deliver the same, required level of emissions reductions. Such interventions presuppose that government officials ,academics or scientists have a better understanding of consumer preferences and technological opportunities than households and businesses. This is generally unlikely and cannot ever be guaranteed.* [9]

Over recent years, Federal, State and Territory Governments have developed a raft of climate change related policies and programs. In just a decade hundreds of programs, initiatives, action plans have been developed, implemented and launched. The scope and scale of the initiatives developed by various levels of Government range in size from programs costing just tens of thousands to more ambitious programs worth hundreds of millions of dollars. Virtually all of them, considered in isolation are well intentioned. But the cumulative result is a mess of conflicting policy and price signals and stimuli.

The Government's own Strategic Review of Australian Government Climate Change Programs (the Wilkins Review) reached similar conclusions when it argued that "*Government should only retain or adopt policies to reduce carbon emissions if it can be demonstrated that they address some inefficiency in the way the emissions trading scheme is working*".

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[8] Productivity Commission, Submission to the Prime Ministerial Task Group on Emissions Trading, March 2007; Productivity Commission, Submission to the Garnaut Climate Change Review, May 2008. Productivity Commission, Carbon Emissions Policies in Key Economies, June 2011.

[9] Ross Garnaut, the Garnaut Climate Change Review, October 2008. p 317.

> *Our fundamental conclusions were that there are too many programs. Many are ad hoc or badly targeted. There is no framework or logic that could be said to organise or render these a coherent set of policies…*
>
> *They are pretty clearly the result of multiple decisions made in an environment where there was no clear strategic approach to policy. Certainly no clear commitment to least cost mitigation or a commitment to use markets to arrive at the most efficient outcome.* [10]

In the wake of the passage of this legislation through the Parliament, the MCA and related representative bodies contend it is incumbent on governments to reduce the number of distortionary schemes at a Federal level and do its utmost to encourage States and Territories to do the same in their jurisdiction rather than add to the burden. The Wilkins Review found over 200 programs in existence, many with "the potential to interfere with an emissions trading scheme". A more recent report by the Grattan Institute suggests the number has grown closer to 300. The Federal and State programs represent an unnecessary reporting and compliance burden on business. In still other cases, greenhouse triggers for approvals have been introduced by law or additional burdens imposed by judicial processes. There is a compelling case for a rationalisation of many of these programs and regulations. The Federal Government must demonstrate leadership. It is unlikely that State governments will rationalise their own climate policies and programs if they sense reluctance on the part of the Federal Government to do the same.

The 2012 Council of Australia Governments' statement on Complementarity Principles for climate and energy policy set out a clear policy framework: "*measures should be targeted to address market failures in a sector that is not covered by the carbon price* (emphasis added)".

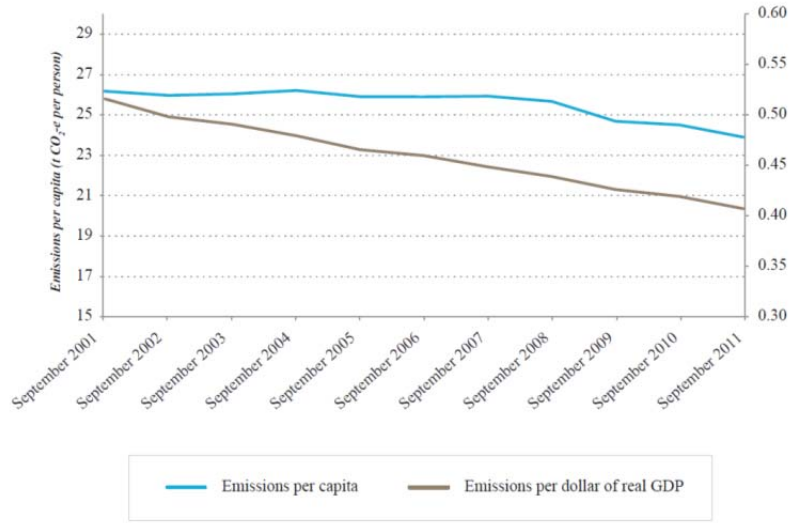
Avoiding further burden

One of the fallacies that have underpinned energy policy is that Australia has done nothing on climate change and is a global laggard in greenhouse gas emissions reductions. This fallacy was countered the Productivity Commission last year in its report comparing comparative effort. The report's conclusion suggests that Australia is making 'a comparable effort' with other nations in seeking to reduce power sector emissions. On the abatement achieved by these efforts, Australian policy is behind only the UK and Germany, though the cost-effectiveness (i.e. cost per tonne) is lower in Australia.

Indeed, the stated ideal of policy maker that Australia needs further substantial policies to break the alleged nexus between economic growth and emissions has in fact been underway over the past 15 years (see Chart 1).

[10] Roger Wilkins, AO, Strategic Review of Australian Government Climate Change Programs, July 2008, p1.

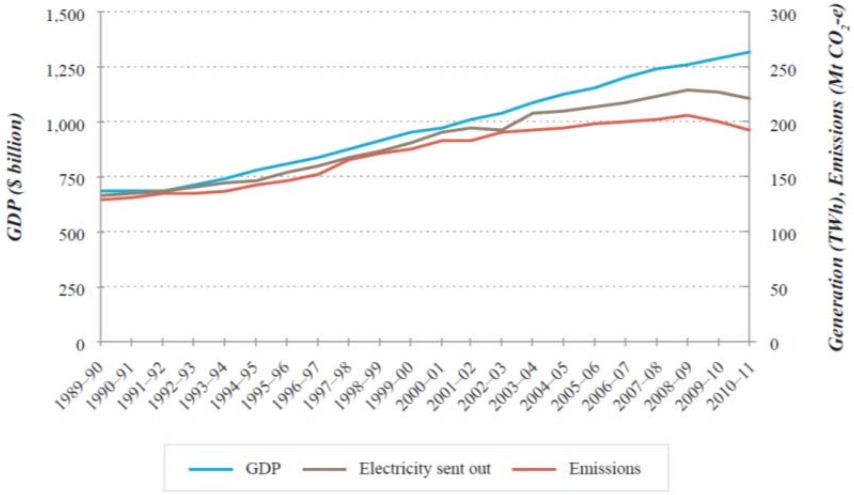
Chart 1: Emissions per capita and emissions (excluding land use and forestry) per dollar of real GDP (2009-10 prices), year to September 2001-2011



Source: DCCEE estimates, ABS Australian Demographic Statistics, pub. no. 3101.0, ABS Australian National Accounts, pub. no. 5206.0.

This is seen clearly in the largest emitting sector – electricity (Chart 2).

Chart 2: Gross domestic product (GDP), electricity sent out and emissions, 1989-90 to 2010-11



Sources: National Greenhouse Gas Inventory (AGEIS online tool); ABS Australian National Accounts, pub. no. 5206.0, Sep 2011; and DCCEE estimates.

The efficiency drive is inherent in the way minerals companies do business.

Government focus should be on stripping away inefficient programs founded in flawed policies that are a drag on investment in new technology. The focus should be on the implementing policies for open competitive markets and specific market-based measures and concentrate on enabling policies that will drive innovation and investment in supply capacity and efficiency, energy use efficiency and low emissions technology.

Minerals Council of Australia
September, 2012