

Renewable Energy Target Review
Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

15 November 2012

Dear Sir/Madam

Renewable Energy Target Review – Discussion Paper

Australian Power & Gas (**APG**) welcomes the opportunity to comment on the Climate Change Authority's (the **Authority**) *Renewable Energy Target Review Discussion Paper – October 2012 (Paper)*.

APG is a Tier 2 energy retailer supplying electricity and gas to customers in Victoria, NSW, and Queensland. Commencing operations in 2007, APG has grown its residential customer base across three states to approximately 341,000 customers.

Overall, we are supportive of the Authority's draft recommendations as it will maintain or change aspects of the two Renewable Energy Schemes (Large and Small-scale)(collectively the **Schemes**) which will provide greater certainty and predictability for energy retailers. In particular:

Role of the Renewable Energy Target

- Recommendation 1: The preliminary view of the Authority is that the frequency of scheduled scheme reviews be amended from every two years to every four years, so that the next review would be in 2016.

We support this recommendation as the extension of the frequency of the Scheme review from two years to four years will provide participants with more confidence and predictability of its requirements to comply with the Schemes. Compliance costs due to scheme changes may also be reduced as a result of lowering the frequency of review.

Small-scale Renewable Energy Scheme

- Recommendation 7: The preliminary view of the Authority is that the price cap remain fixed at \$40, to be reassessed once there is some experience of the scheme's operation in the absence of the multiplier.

We support the Authority's view of maintaining the current \$40 price cap on small-scale technology certificates (**STC**).

Scheme participants and STC generators have become accustomed to the \$40 certificate price cap and as highlighted in the Paper (at page 98) the STC spot prices are around \$25 to \$32. Any changes to the cap (whether an increase or decrease) will distort the spot market and potentially detract investment in the generation of the STCs. Also, there may be adverse effects on any existing fixed arrangements participants may have with third parties for the procurement or generation of STCs at an agreed price.

Liability and exemption framework

- Recommendation 14: The preliminary view of the Authority is that the renewable power percentage and small-scale technology percentage should be required to be set prior to a compliance year, and preferably by 1 December of the preceding year.

APG strongly supports the Authority's view to set the renewable power percentage and small-scale technology percentage prior to the start of the compliance year.

As recognised by the Authority in the Paper (at page 105), under the current environment a quarter of the amount of electricity that is subject to Scheme liability, has been acquired by liable entities before the actual renewable power percentage (**RPP**) and small-scale technology percentage (**STP**) are set by 31 March in each year.

By imposing a requirement on the Clean Energy Regulator (**Regulator**) to set both the RPP and STP prior to the start of the compliance year (suggested by 1 December of the previous year) will greatly assist retailers with their management of their liabilities under the Schemes as well as their budgeting for certificate costs and negotiations in wholesale arrangements.

However, if the final decision of the Authority is to not change the timing of the publication of the RPP and STP, an alternative is to provide a mechanism for the publication of a non-binding estimate of the percentages in the previous year – much like the existing requirement under the Small-scale Renewable Energy Scheme (**SRES**) where the Regulator must publish non-binding estimates of the STP prior to 31 March in each year.

In addition to the above, we do have some comments regarding draft recommendation 3:

The Large-scale Renewable Energy Target

- Recommendation 3: The preliminary view of the Authority is that the existing large-scale renewable target of 41 000 GWh and interim targets should be maintained in their current form

APG is of the view that the current large-scale renewable energy target (**LRET**) of 41 000 GWh should be reduced. As mentioned in the Paper (at page 71), a reduction of the current target to the updated version of the "20 per cent" of projected electricity supply from large-scale generation in 2020, that is, 26 400 GWh would (over the period from 2012-13 to 2030-31):

- Save around \$4.4 billion in resource costs
- Increase emissions in the stationary energy sector (around 94 Mt increase)

- Increase average household bill – around \$7 difference in net present value in total electricity bills.

The Authority has formed the view that the existing target of 41 000 GWh should not be changed because the resources savings are not large enough to warrant the damage to the stability, predictability and investor confidence that such a change could entail - although the Authority has observed that the impact on average household bills is small.

However, we would argue that a savings of \$4.4 billion in resource costs is substantial as such savings could be reinvested by industry into renewable energy projects and encourage better efficiency in existing energy generation methods. Coupled with the fact that electricity demand has fallen, and the introduction of the carbon pricing which may improve investment into renewable energy sources, as well as minimal impact on household bills; we would submit that the advantages of a lower LRET would outweigh the perceived but otherwise unqualified disadvantages, that is: damage to the stability, predictability and investor confidence arising from the change.

Please do not hesitate to contact me should you have any questions or wish to discuss APG's submission further. I can best be reached on (02) 8908 2790 or via email at rchan@auspg.com.au.

Kind regards,



Roman Chan

Regulatory & Compliance Manager