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Mr Bernie Fraser
Chairman
The Climate Change Authority
Level 10
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Business Council of Australia

Review of the Renewable Energy Target

Dear Mr Fraser

In light of the recently released discussion paper on the renewable energy target (RET) by the Climate Change Authority (CCA) the BCA would like to make the following comments on three matters in particular given the stated approach to the review.

As the recent Energy White Paper has made clear the development of an effective and efficient energy market remains the unfinished business of both federal and state governments.

The white paper highlights that an effective and efficient energy market relies on assets that are primarily privately owned and that can operate on a level playing field and points out that Australia is not managing the risks associated with climate change in a manner that supports lowest-cost responses.

Achieving both outcomes – that is an effective and efficient market and the management of climate change risks on the lowest cost manner are critical to Australian businesses accessing the benefits of a resource rich country such as Australia which has had historically lower energy prices.

Australia is, however, experiencing rapidly increasing electricity and gas prices, which has adverse impacts on household as well as business costs.

The contributors to these price increases are now well documented and include the RET, carbon price, increased network prices driven by the need to meet increasing reliability standards, to make up for historical underinvestment and to invest in new infrastructure necessary to meet increased demand, and in particular increased peak demand.

The increasing requirement to accommodate renewable energy sources in the energy network has also necessitated extensions and upgrades.

The CCA, in making its recommendations to government with regard to the operation of the RET, is in a position to ameliorate aspects of these upward pressures on electricity prices.

The CCA discussion paper acknowledges that there have been substantial policy changes since the MRET was first introduced including the introduction of a carbon pricing mechanism, establishment of the Australian Renewable Energy Agency and the Clean Energy Finance Corporation and then identifies as its priority “improvements that can be made to the RET within this new policy environment”.

While the BCA remains of the view that the RET has become an unnecessary policy with the introduction of a carbon price we acknowledge that your review is not considering whether the RET should exist.

Level of the target

A first priority improvement therefore should be to ensure the implementation of the RET delivers no more than the 20 per cent target.

As recently as February this year the government made clear its intention that the RET be set at 20 per cent i.e. “On 29 June 2010, the Act was amended further by the Renewable Energy (Electricity) Amendment Act 2010 (the Amendment Act), which from 1 January 2011, will split the RET into the large-scale renewable energy target (LRET) and small-scale renewable energy scheme (SRES) and strengthens the Government’s commitment of 20 per cent of Australia’s electricity will come from renewable sources by 2020”.[1]

Recent amendments to the electricity demand forecasts suggest that the RET, as currently defined, would result in around 26 per cent of Australia’s electricity supply coming from renewable energy generation by 2020.

The current level of the target is **materially** out of line with the stated objective of the policy mechanism bringing with it unnecessary additional costs. What is required is a return to the 20 per cent target based on current AEMO demand forecasts not the forecasts that applied at the commencement of the RET.

While the CCA discussion paper raises issues with regard to investment certainty for those in the renewable energy industry there is as much a need to provide predictable and manageable policy frameworks for the broader energy market and for industries and households that rely on access to reliable and reasonably priced electricity.

Maintaining the current arrangements in effect substantially increase the costs to all consumers beyond what was intended when the policy was first proposed.

An adjustment at this time to return to the 20 per cent target and a clear statement to the intent of not exceeding the target as well as confirmation that the next review will also consider whether the target is in line with the 20 per cent provides a clear framework to investors.

Such an adjustment will need to be implemented in a manner that does not adversely impact on investment decisions already made, and should be mindful of their impact on investments currently being planned or already seeking approval.

Small-Scale Renewable Energy Scheme (SRES)

Similarly the small scale renewable energy scheme (SRES) should be amended to reduce its distortionary effects.

The uncapped nature of the SRES, combined with other government policies such as feed-in tariffs, has resulted in a large number of small-scale technology certificates (SRECs) being created. Furthermore, the greater than expected number of SRECs has not been accompanied by a commensurate reduction in the LRET. Indeed, the SRES is currently more expensive than the LRET, and may continue to be for the next few years.

The level of the LRET has been set based on previously assumed electricity demand forecasts, as well as assumptions about the level of take-up of the SRES. The uncapped and uncertain nature of the SRES adds another variable in terms of the overall components of the RET delivering on the stated objectives of the overall policy.

As a priority the multiplier being used for the SRES should be wound up immediately.

1 Explanatory statement Select Legislative Instrument 2012 No 14 Renewable Energy Target (Electricity) Amendment Regulation 2012 (No. 2).

While there has been resistance to the reintegration of the two schemes this should be considered especially given the previous policy logic for the split ie high technology costs no longer exists.

Further, the LREC target should be adjusted for the volume of generation from the SRES. Initial estimates had been that the SRES would reflect 4 TWh in 2020 - the modelling in the CCA discussion paper now suggests 11 TWh in 2020.

Duration of the RET

Under the current legislation the 20 per cent RET carries through to 2030.

It has been suggested that new targets should be set for the post-2020 period. Such a proposal should not be pursued. Instead it should be recognised that wider market forces, including a price on greenhouse gas emissions, will underpin energy investment choices.

Yours sincerely

Maria Tarrant
Deputy Chief Executive

cc: Anthea Harris, CEO, Climate Change Authority