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15 November 2012

Ms Anthea Harris
Chief Executive Officer
Climate Change Authority
GPO Box 1944
Melbourne, VIC 3001

Via email

Re: Comments and Suggestions with regards to the Renewable Energy Target Review Discussion Paper

Dear Ms. Harris:

Infigen Energy appreciated the opportunity to recently attend one of the Climate Change Authority's (CCA) Roundtable meetings with regards to the Discussion Paper. It was suggested at the meeting that further comments and suggestions could be made to the CCA. This letter expands on some of the comments made at the roundtable meeting and makes further suggestions with regards to the Discussion Paper.

Before making specific suggestions, Infigen Energy would like to take this opportunity to congratulate the Climate Change Authority on a very substantial and thorough piece of work undertaken in producing the Discussion Paper. It is particularly impressive given the short time allowed for its preparation. We also commend the CCA on the focus and priority given to policy stability and predictability. Ongoing regulatory uncertainty is a significant threat to existing investments and the greatest impediment to potential new investment, as the CCA has rightly made clear in the Discussion Paper.

We would also like to reiterate our support for the CCA's recommendations in relation to the LRET and the frequency of the RET reviews (recommendations 1-4). Infigen Energy looks forward to these key recommendations remaining unchanged in the CCA's final report.

Our specific comments and suggestions for the final report are as follows.

The level of Renewable Energy generation in 2020

Even though the CCA has taken the position not to support changing the LRET target to a so-called "real 20%" in 2020, Infigen Energy considers that there are still some important issues that should be clarified in this regard.

As pointed out in the Discussion Paper, there have been several studies attempting to predict the percentage of Renewable Energy (RE) generation in 2020; none of which agree with each other. The modelling undertaken by SKM/MMA has arrived at another estimate--- the current LRET/SRES will result in approximately 25% Renewable Energy in 2020. Some of these studies have made assumptions and calculations that overestimate the percentage of Renewable Energy generation in 2020. Infigen Energy is aware of a thorough study being undertaken by Green Energy Trading which concludes that the existing RET targets will only result in around 21-22% of generation coming from renewable sources in 2020.

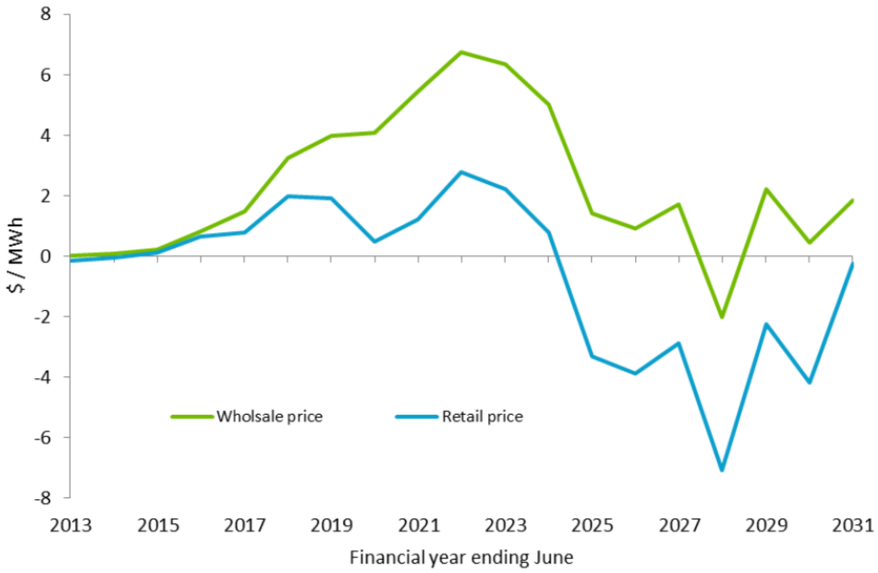
The important point is that there is no "right" answer when trying to predict the future eight years from now in a market that is undergoing massive changes. The SKM modelling of Renewable Energy market penetration is one scenario; but there are many others. It is very unlikely that any study will accurately predict future electricity generation in 2020, and the experience so far is that every forecast is going to be different.

We respectfully suggest that the CCA make it clear in their report that there are a wide variety of estimated renewable energy percentages in 2020. Of course, this uncertainty and difference of opinions are additional reasons why adjusting the LRET target to new estimates of 20% in 2020 is highly problematic.

Consumer Benefits of a "Real 20%" LRET target

While the Discussion Paper outlines how the consumer savings from a "real 20%" target will not be substantial, the updated Figures in the Corrigenda make the case even more compelling. Figure 32 (below) shows no material change in retail prices with the reduced LRET target through 2015, after which consumers are predicted to experience ***higher*** retail prices with the reduced "real 20%" target compared with the current 41,000 GWh target (until 2024). This is an important point that we believe is worthy of inclusion in the final report.

Figure 32 Change in wholesale and change in retail prices – updated 20% target compared with reference case 1 ($/MWh)

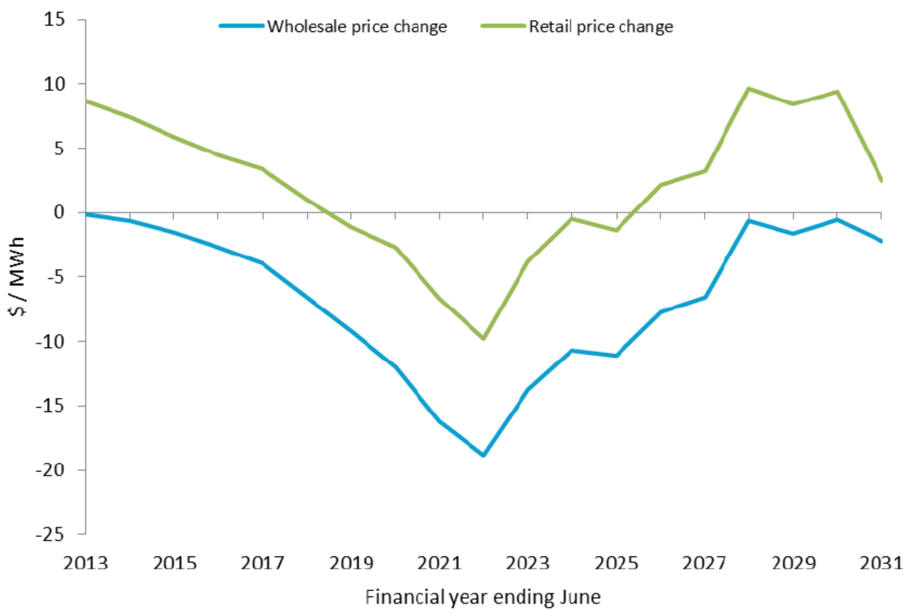


Benefits unrelated to climate change

Infigen Energy considers that the "merit order effect" of wind (and solar) energy is one of the most significant benefits that Section 3.2.3 should discuss. While the RET scheme does result in an impost on retailers which is passed through to electricity customers, it is very important to document the downward pressure on wholesale electricity prices that the RET scheme also demonstrably enables. The merit order effect is documented very clearly in Figure 26 of the Corrigenda which shows wholesale prices declining significantly due to the RET scheme, becoming $18/MWh lower than the "No RET" case by 2022.

It is also worth noting in Figure 26 that the flow through of these wholesale electricity price reductions to retail prices is forecast to result in lower retail electricity prices for the period of 2018-2025 compared to the No-RET case.

Figure 26 Change in wholesale and retail prices – no RET compared with reference case 1 ($/MWh)*



Scope of Future Reviews

The CCA has made it clear in the Discussion Paper how important regulatory certainty is for the industry and that the existing LRET target of 41,000 GWh per annum should be maintained. For the avoidance of doubt or specualtion, Infigen Energy considers that it would significantly increase regulatory certainty and investor confidence if the CCA made it clear that the 2016 RET review would not consider decreasing the LRET target or shortfall penalty price.

Such a limitation is not unreasonable as the Act states that the CCA's recommendations must align with the objects of the Act including, "to encourage the additional generation of electricity from renewable sources." Recommending a decrease in the LRET target (or the shortfall penalty) would discourage additional renewable energy generation, and would therefore contradict the legislation. Therefore, limiting the scope of future RET reviews in this way would be consistent with the RET legislation and would reduce regulatory uncertainty removing one of the key impedements to new investment in renewable energy generation.

REC Registry

In our submission to the Issues Paper, Infigen Energy included some suggestions with respect to making the REC registry more transparent and available for public analysis. Specifically, Infigen Energy would like to see the registry make LGC data accessible in a collated form, suitable for download, on a monthly basis. This information is already available to anyone with the financial capacity to either develop the software to query the database, or pay a third party for the output.

It would also benefit the market to know the surrender date of each LGC, making it possible to understand how many LGCs were surrendered in each month or year.

Infigen Energy looks forward to consideration of these suggestions in the CCA's final report.

Gas Prices

In Section 4.2.2 of the Discussion Paper, it is stated that real gas prices for the eastern and southern States are assumed to double by 2030 as they approach international price parity. From our reading of industry reports and discussions with market participants, it is the widely held view that gas prices will double much sooner than 2030 as the LNG export facilities come on line. A recent paper from AECOM[1] makes this point and is worth consideration by the CCA.

Recommendations in the Discussion Paper

As previously stated, Infigen Energy strongly supports the CCA's draft recommendations with respect to the LRET and the interval period between future RET reviews (as well as many other recommendations in the Discussion Paper).

The only two recommendations for which we have a different view from the preliminary recommendations in the Discussion Paper are:

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[1] http://www.aecom.com/deployedfiles/Internet/Geographies/Australia-New%20Zealand/DeliveringEnergyPriceSecurity_DrJennyRiesz.pdf

6) Moving 10 - 100kW PV systems to the LRET Scheme, and

15) Maintaining annual surrender of LGCs.

Infigen Energy considers that PV systems less than 100kW should remain in the SRES scheme. First, it is our understanding that owners and proponents of these systems would prefer to stay in the SRES scheme, so this preliminary recommendation could well result in reduced uptake of these medium scale PV systems. Infigen Energy is also wary of inclusion of these systems in the LRET scheme as there is always the possibility that State Governments, or other entities, could introduce rebates, Feed-in Tariffs, or other measures to distort the LRET scheme in favour of such systems as has occurred before (with residential PV systems, for example). Infigen Energy considers that "behind the meter" systems, such as <100kW PV, should remain in the SRES and that generation plants selling into the wholesale market ("in front of the meter") should be included in the LRET.

As stated in our submission to the Issues Paper, Infigen Energy supports consideration of changing LGCs to a quarterly surrender period. Such a change would be expected to make a significant contribution to improving liquidity in the LGC market. At the very least, it would create four periods each year where some buyers would be active in the market. While some retailers might initially consider this to be an undesirable change, STCs are currently surrendered on a quarterly basis so such a change would merely align the surrender periods for LGCs and STCs.

Conclusion

Infigen Energy again congratulates the CCA on the Discussion Paper and its recommendations with regards to the LRET scheme. The recommendations align with the objectives of the legislation and are well supported in the Discussion Paper. Infigen Energy looks forward to these recommendations remaining unchanged in the CCA's Final Report.

Please contact the undersigned if there are any questions or clarifications needed with regards to this submission.

Yours sincerely,

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