Renewable Energy Target Review Discussion Paper

Response

(November 2012)

"As a new entrant, vertically integrated retailer (via its new business Powershop), Meridian hopes to have the opportunity to continue to invest in Australia under stable market conditions (as contemplated by the Authority's recommendations) in order to offer Australian consumers genuine choice and more ways to save money on their electricity bills."

meridian

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Introduction

Meridian Energy Australia (**Meridian**) is pleased to respond to the Renewable Energy Target Review Discussion Paper (**Discussion Paper**) released by the Climate Change Authority (the **Authority**) in October 2012.

The importance of stability

The Authority clearly recognises the importance of "increasing confidence and predictability" by minimising regulatory uncertainty. Meridian strongly endorses the Authority's conclusion that that the cost of modifying the 41,000 GWh LRET target significantly outweighs any benefit of changing that target.

Furthermore, Meridian welcomes the recommendation that reviews of the LRET take place once every four years rather than once every two years.

Long term competition benefits

In its first submission to the Authority, Meridian made the observation that:

- Reducing pressure on household bills requires genuine competition.
- Genuine competition requires new retailers with access to long term generation.
- Long term generation will not be available to new entrants without the LRET – as is.
- Continuity and stability of the LRET is critical to reducing the pressure on household energy bills.

While noting the potential for the LRET to promote long-term retail competition, the Authority described such impacts as "unintended positive outcomes."

That the LRET's positive impact on competition is unintended does not render such benefits any less real to consumers. Accordingly, it is appropriate that the review of the Renewable Energy Target consider these benefits as a characteristic of the scheme which could be undermined by any changes to the scheme.

The recommendation that the Renewable Power Percentage be set by 1 December in the year preceding a compliance year is welcomed, on the basis that it will further enhance market participants' capacity to manage their risks.

Furthermore, Meridian had suggested that LGC surrender should occur quarterly (rather than annually), on the basis that the efficiency of the LGC market could be improved as a result.

While Meridian stands by its suggestion on this front, it respects the Authority's conclusion that "the potential for additional compliance costs for quarterly surrender of LGCs" dilutes the benefits of a change.

"Electricity has become a major impost on Australian household budgets. Meridian welcomes the recommendations of the Authority, which – if adopted – will reduce regulatory uncertainty. Reduced uncertainty is the key to enabling genuine competition in electricity retailing, which in turn is the key to reducing pressure on household bills."

Market activity and outlook

While a small number of power purchase agreements (**PPAs**) have been written by retailers during the review period for the LRET, the quantity of LGCs purchased represents a small fraction of the overall LGC obligation of the relevant liable entities. The execution of these PPAs does nothing to negate the fact that uncertainty surrounding the LRET discourages investment. On the contrary, regulatory uncertainty flowing from the review has enabled incumbent retailers to "cherry-pick" PPAs from among a raft of projects that are otherwise unable to secure finance. Such PPAs would represent good investments (for the retailer) under a wide range of regulatory outcomes for the LRET.

As a constructor/owner of renewable energy assets, Meridian has found it difficult to commit to projects under the current climate of regulatory uncertainty (relating not only to LRET, but also to retail price regulation in South Australia, Queensland and New South Wales). In fact, Meridian desires to make a number of significant energy investments in Australia, but these will be jeopardised without a material reduction in such regulatory uncertainty.