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Alstom response to the RET review issues paper

Alstom welcomes the opportunity to comment on the issues raised in the review paper released by the Climate Change Authority.

As a major multinational supplier of power generation and transmission equipment, Alstom is in a good position to compare and contrast the level of ambition and effectiveness of various policies to support the deployment of renewable energy. We believe that the Australian Renewable Energy Target is appropriate in its ambition, and both effective and cost efficient as a delivery mechanism. It has to date delivered more carbon abatement than any other measure and with continued investment will steady increase its contribution. It also provides considerable benefits in terms of energy diversification and security, technology development and jobs.

Alstom is a member of both the Clean Energy Council and the Australian Industry Group. We support the submissions made by both those organizations. In addition, we would offer the following observations.

The key requirement for continued success of the RET is certainty.

The level of investment in renewable energy driven by the RET has been substantial, as the submission from the CEC points out. A percentage of this sunk investment could be put at risk by changes in the target. The industry is also reaching an important milestone in terms of forward financing, with 2015 marking the point at which the normal 15 year period for recouping investment in wind farms, for example, coincides with the end of the RET. Investor certainty is now the overriding concern in terms of achieving the renewable energy target.

There has been, and continues to be, considerable uncertainty over the introduction of carbon pricing in Australia. Alstom has seen first hand the effects of this policy uncertainty, with a slowdown in investment amounting almost to a freeze over the last three years. Within the RET itself, the changes over the same period in the approach to small scale systems have introduced further uncertainty and also led to a slowdown in investment in large scale renewable energy developments. The lessons of both these experiences must be that governments should tread warily in terms of policy change once a direction has been established. With constant revision to targets and schemes comes a reputation for sovereign risk that will see a country lose its attractiveness as an investment destination.

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The level of the target should remain unchanged, as this is critical to establishing certainty.

The issues paper is correct in noting that the target of 20% of electricity production by 2020 is a policy commitment, and that reflecting the target in terms of a fixed number of gigawatt hours has been the practice since the legislation was first introduced in 2001. In fact, at that time and later, the electricity industry argued that the fixed number was necessary to establish the quantum of investment and the optimal trajectories required. Alstom is strongly of the opinion that the target should remain fixed.

It is conceivable that the number of gigawatt hours required could be lowered in an attempt to mitigate the "risk" that Australia overshoots the policy target of 20% of renewable energy in its electricity mix by 2020. However, doing so would have disastrous effects on investment certainty and for that reason alone should not be considered. There are additional reasons not to lower the gigawatt hour target. The only rationale for doing so is based on forward projections of electricity demand in 2020, which are inherently uncertain and on which there is little agreement. The underlying reasons for the current drop in demand are speculative and there is no guarantee that other factors will not increase demand in coming years. The natural variability of renewable generation, and the unknown level of uptake in the small scale renewable scheme add further variable factors. Varying the gigawatt hours to try and approximate 20% would result in a moving target that would stymie investors' attempts to estimate the amount of investment required to comply with the legislation.

As a number of studies have shown, the cost of the RET on consumers' electricity bills is modest and a small component of rising electricity costs. The continuing high public support for renewable energy would appear to indicate that the risk of overachieving is not a major issue for the government.

We also note that analysis by Bloomberg New Energy Finance has questioned the cost benefit of reducing the gigawatt hour target. BNEF estimates that reducing the LRET from 41,000 GWh to 27,000 Gwh would cut future investment in renewable energy by 50%, but reduce the cost of the measure by only 26%.

Related issues

Alstom believes the current shortfall charge is appropriate, particularly as a number of renewable energy technologies have enjoyed cost reductions over recent years. We would not recommend any change.

We believe it appropriate that projects financed by the Clean Energy Corporation are eligible for RECs, and do not think that the target needs to be increased to account for

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this. CEFC financing simply displaces commercial financing, and there is no reason why it should be treated differently in terms of the target. In fact, CEFC financing is the most effective means we currently have of introducing diversity of renewable energy sources into the target, given that it will support those sources that are not as close to grid parity as others. Its inclusion in the target should be welcomed.

In terms of current exemptions, we believe it is time to consider including non grid connected self generators above a certain threshold in the Renewable Energy Target.

Diversity of Renewable Energy Sources

Alstom believes that Australia will in future require a diverse range of energy sources, both renewable and non-renewable, in its electricity mix. There needs to be a balance of incentives to achieve this. We recognize that the RET is designed as a lowest cost market mechanism and that there are potential problems with introducing concepts such as banding or multipliers that complicate the objective of the measure. For this reason, we support the current approach of providing government funding through the CEFC and ARENA that can be mixed with market incentives provided by the RET as the most effective way of introducing higher cost sources into the mix. However, we think it would be worthwhile in a future review to consider the shape of the RET between 2020 and 2030 and determine if and how it can support the introduction of more diverse sources of electricity. This could include raising the target and/or looking at other complementary forms of market support. Because it would have to take into account the situation with Australia's carbon price, we would not recommend that such consideration occur before 2016.

Small scale renewable scheme

Alstom notes both the popularity of small scale renewable generation and the policy problems that have been created by uncoordinated forms of government support. The experience of the last few years greatly increased the risk that the target would not be met, as it impacted negatively on investment in large scale renewables. We believe that the splitting of the target, the reduction in the RET multiplier and the phasing down of state schemes have provided more realistic policy settings for the deployment of residential solar panels in particular. Given the recent dramatic reductions in costs of solar PV and the residual risk to investment accruing from the fact that the SRES is an uncapped scheme, we encourage the Authority to consider recommendations regarding the optimal means of supporting small scale development without threatening the achievement of the large scale RET.

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Reviews

We support the view of the Clean Energy Council that a schedule of two yearly root and branch reviews of the legislation is in itself a risk because of the uncertainty it creates. We would encourage the Authority, on the completion of the current review, to announce its intentions with regard to the 2014 review. We believe this should be very narrow in focus and deal only with transactional issues that have arisen in the intervening two years. By 2016, there would be sufficient clarity with regard to achievement of the target and the situation with the Carbon Pricing Mechanism to allow for another significant review, preferably focusing on the post 2020 period.

In conclusion, Alstom would like to record its strong support for the continuation without change of the Renewable Energy Target, and its view that the RET is a critical component of an effective response to climate change. With or without a Carbon Price Mechanism, the RET acts to diversify Australia's energy supply, reduce its carbon emissions, and keep us in touch with technological developments globally.

Your sincerely

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