LMS ENERGY

RENEWABLE ENERGY GENERATION

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14th September 2012

Submissions
Climate Change Authority
GPO Box 1944
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Attention: submissions@climatechangeauthority.gov.au

Dear Sir/Madam,

Renewable Energy Target Review – Issues paper submission

LMS appreciates the opportunity to respond to the Renewable Energy Target Review issues paper released 20th August 2012. The Renewable Energy Target has been a foundation for the Landfill gas Industry, exemplified by landfill gas technology being the third largest source of LGCs. As the largest creator of landfill gas LGCs in 2011, LMS cannot emphasise enough the importance of certainty for the Renewable Energy Target and industry as a whole.

This submission provides LMS' responses to the questions asked in the issues paper. The over-riding theme from our submission is the need to maintain investment certainty in the Renewable Energy Industry by not reducing the target.

I am available to provide any additional information or discuss issues raised in further detail on request. LMS again appreciates the opportunity to provide input on the shaping of this review, and cannot stress enough the importance of investment certainty within the Renewable Energy Industry.

Yours sincerely,

Commercial Manager
Michael Lebbon

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Submission: Renewable Energy Target Review – Issues paper

LMS Energy Pty Ltd
14th September 2012

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Executive Summary

The primary issue with the Renewable Energy Target Review is the need to ensure investment certainty for the Renewable Energy Industry. Over the past few years large scale renewable energy projects have been detrimentally effected by over generous arrangements for small scale Photo Voltaic systems and solar hot water heaters. A large surplus of Large-Scale Generation Certificates (LGCs) has occurred causing the LGC price to collapse and investment in Large Scale Renewable energy projects to stall.

Large Scale Renewable Energy project developers have had to contend with a great deal of uncertainty, an eventual recovery of the LGC price seemed apparent until the context of this review was issued creating more uncertainty in the market. LMS cannot implore the review enough not to decrease the 41,000 GWh fixed target. Decreasing the target would introduce even more uncertainty into the market, this could be detrimental to Australia securing future investment in Renewable Energy.

Introduction

LMS currently owns and operates 19 embedded renewable energy generation facilities located throughout Australia in predominantly rural areas adjacent to regional centres, thus providing distributed base load renewable electricity to regional Australia. These facilities are fuelled by waste gas collected from landfills that would otherwise be released into the atmosphere as a potent greenhouse gas. Not only does landfill gas renewable energy displace fossil fuels it also abates a potent Greenhouse Gas, methane, in the process.

Landfill gas is the third largest technology source of LGCs. In 2011 LMS was the largest creator of landfill gas LGCs. LMS employs over one hundred staff all across Australia, many based in regional Australia. LMS is committed to maintaining its industry leading innovation and continue its market leading development of renewable energy facilities around Australia.

All of our renewable electricity generators are base load meaning they run 24/7 and are embedded in local distribution networks. They therefore reduce loads within the distribution network and save additional infrastructure costs as well as avoiding the significant losses that generators positioned outside the distribution network encounter. The LGC revenue stream is vital for project survival; over the past few years however the continued uncertainty and resultant depressed LGC market is hurting these projects.

LMS has the potential to invest heavily to bring many more embedded renewable energy projects online in the near future. Every new project that LMS develops not only increases Australia's renewable energy capacity but directly creates full time jobs. With many of LMS' remaining development sites in regional Australia, most of LMS' future development will create extra full time skilled employment in regional Australia. However; the level of uncertainty that continued regulatory changes bring has the serious potential to delay or even stop the development of these base load renewable energy projects and their associated benefits.

Large-scale Renewable Energy Target

Are the existing 41,000 GWh LRET 2020 target and the interim annual targets appropriate? What are the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity?

Section 162(11) of the Renewable Energy (electricity) Act 2000 (the *Act*) states that '*a recommendation may not be inconsistent with the objects of the Act*'. The first object of the Act is to '*encourage the additional generation of electricity from renewable sources*'. Any recommendation to reduce the current target will not only increase the level of uncertainty within the renewable energy industry but would also appear to contravene the *Act* by providing a recommendation that does not encourage the additional generation of electricity from renewable sources.

The current 41,000 GWh target is appropriate. It was made clear to the Government that when it set a 41,000 GWh target the resulting percentage of Australia's electricity sourced from Renewables would not be precisely 20%. The Government with advice from the Tambling review decided to set a fixed GWh target. Investments have been made based on a fixed 41,000 GWh target. The Government is seriously calling into question the equity of the scheme if it decides to change its reasoning for applying a fixed GWh target. In order to maintain certainty the Government must not reduce the 41,000 GWh target.

Decreasing the target will be economically inefficient as it will create further uncertainty in an already cautious market. Greater uncertainty will lead to less investment commitments – which will lead to a reduction in environmental effectiveness. Reducing the target would be completely inequitable and destroy the future credibility and certainty of the scheme.

Is the target trajectory driving sufficient investment in renewable energy capacity to meet the 2020 target? How much capacity is needed to meet the target? How much is currently committed? Has the LRET driven investment in skills that will assist Australia in the future?

If the target is not decreased and project developers can be assured that their investments will continue to be supported by a definite quantified demand source, significant investment in new Renewable Energy projects will return as the current surplus of LGCs is absorbed.

In the context of other climate and renewable policies, is there a case for the target to continue to rise after 2020?

LMS has always been a proponent that while the LRET is legislated to continue to 2030, it should have a progressive 1% increase in target every year after 2020, aiming by 2030 to have 30% of Australia's electricity sourced from renewables. Progressively increasing the target will ensure with or without a carbon price Australia will continue to have a strong Renewable Energy sector. If by 2030 there is no complementary carbon price to support Renewables the RET can continue. If there are subsequent complementary policies that do also support Renewables the LGC price will fall to zero due to market forces causing no excess cost on the overall economy.

Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?

LMS has previously stated that the target should not be a fixed gigawatt hour target, but rather a true demand target. However the industry has operated and made investment decisions based on a fixed target. In the interest of investment certainty a fixed target of 41,000 gigawatt hour target needs to be maintained, as suggested by the Tambling Review.

At 2020 a readjustment could then occur to increase the target to 30% by 2030. As a minimum after 2020 the target should be gradually increased to keep pace with overall electricity demand and generation growth. This will ensure that proportionately Renewable Energy generation does not decline in comparison to Australia's overall generation mix.

Should the target be revised to reflect changes in energy forecasts? If so, how can this best be achieved – as a change in the fixed gigawatt hour target, or the creation of a moving target that automatically adjusts to annual energy forecasts? How should changes in pre-existing renewable generation be taken into account? What are the implications in terms of economic efficiency, environmental effectiveness and equity?

For the period up until 2020 the 41,000 GWh target should be maintained to ensure investment certainty. Post 2020 a real percentage approach could be adopted to take account for any increased demand. As stated above the target would ideally increase by 1% every year so by 2030 30% of Australia's electricity is generated from renewable sources.

With regards to pre-existing generation improvements; so long as a baseline project is refurbished at over half the cost of replacement it should be classified as a new project, without the need to turn off for three consecutive years.

This will allow inefficient old baseline power stations to be refurbished without the need to turn off for three years, improving both their economic efficiency and environmental effectiveness. Equity will be preserved as reinvestment in old power stations will only qualify to claim "new" Renewable Energy Power station status if at least half the replacement cost is spent on the refurbishment.

What are the costs and benefits of increasing, or not increasing, the LRET target for Clean Energy Finance Corporation-funded activities? What are the implications in terms of economic efficiency, environmental effectiveness and equity?

If the Clean Energy Finance Corporation (CEFC) does finance projects at significantly lower commercial rates, any LGCs created from these projects should be additional to the 41,000 GWh target, otherwise the CEFC financed projects could crowd out privately funded renewable energy projects.

Is the calculation of individual liability using the Renewable Power Percentage the most appropriate methodology?

LMS has no comment as it is not a liable entity.

Is it appropriate to set the Renewable Power Percentage by 31 March of the compliance year?

LMS has no comment as it is not a liable entity.

Is the shortfall charge set at an appropriate level to ensure the 2020 target is met?

The current shortfall charge is appropriate as it gives a tax affected LGC ceiling price of $92.86. However; future shortfall charges should be escalated by some factor. The majority of other environmental schemes increase the penalty charge on a yearly basis to ensure the penalty charge remains relevant with regards to targets and inflation. An appropriate escalation would be at least the national yearly Consumer Price Index increase.

Are there other issues relating to the liability or surrender framework the Authority should consider?

LMS has no comment as it is not a liable entity.

What are the costs and benefits of the current exemption arrangements? Are they appropriate?

LMS has no comment as it is not a generator seeking exemption arrangements.

The self-generator exemption pre-dates the emissions intensive, trade exposed partial exemptions – are both required? If so, why?

Neither is applicable to LMS, therefore no comment.

What, if any, changes to the current exemption arrangements should be made? What would be the impact of those changes on directly affected businesses and the broader community?

Not applicable.

Is a list approach to 'eligible renewable sources' appropriate?

Yes a list clarifies what is and isn't accepted – providing certainty.

Are there additional renewable sources which should be eligible under the REE Act?

LMS is not aware of any additional sources.

Should waste coal mine gas be included in the RET? Should new capacity of waste coal mine gas be included in the RET?

No comment.

What would be the costs and benefits of any recommended changes to eligible renewable sources?

No comment.

Are the LRET accreditation and registration procedures appropriate and working efficiently?

LMS are happy with the accreditation and registration procedures. Applications are processed efficiently and any issues are resolved in a proficient manner. LMS was happy with the process when the regulator was the Office of the Renewable Energy Regulator (ORER). With the Clean

Energy Regulator has taking over ORER's official role LMS continues to be satisfied with the process and service provided.

Small-scale Renewable Energy Scheme

What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies?

The greatest benefit is the separation of non-generation and phantom certificates to avoid further over supply issues that crowded out of large scale renewable energy generation investment around Australia.

Should there continue to be a separate scheme for small-scale technologies?

Yes – the small scale technology scheme should never be reintroduced back into the LRET because the presence of deeming and multiplier grossly distorted the market.

Is the uncapped nature of the SRES appropriate?

LMS is not directly affected by the SRES, however the uncapped nature of the SRES is technically inequitable and does not result in an overall Renewable Energy Target that is technology neutral. The SRES will support a price for small scale solar via an uncapped scheme with constant adjustments to soak up extra certificate creation, whereas the LRET has no mechanism to constantly soak up higher than expected creation of LGCs, creating policy inequality between the two schemes.

What do you see as being the costs and benefits of an uncapped scheme in terms of economic efficiency, environmental effectiveness and equity?

As mentioned above, an uncapped scheme effectively supports a particular type of technology and does not ensure efficiency. It is inequitable as it is not technology neutral. Furthermore the deeming and multipliers in the uncapped scheme raise questions about the environmental effectiveness of the scheme.

The majority of compliance cost attributable to the Renewable Energy Target stem from the SRES. Despite the LRET only adding marginal costs to household electricity bills, the larger cost contribution of the SRES has tarnished the entire Renewable Energy Industry as overly expensive in the public eye.

Is the SRES driving investment in small scale renewable technologies? Is it driving investment in skills?

No comment – not applicable to LMS

What is the appropriate process for considering and admitting new technologies to the SRES?

No comment – not applicable to LMS

Should any additional small-scale technologies be eligible to generate small-scale technology certificates?

No comment – not applicable to LMS

Is it appropriate to include displacement technologies in the SRES?

No – LMS has always held the view that the Renewable Energy Target should support "generation" projects only. Displacement projects that do not generate electricity do not belong in a Renewable Energy Target/Scheme. Displacement technologies are certainly innovative and useful technologies but should be incentivised under a different scheme – otherwise the renewable energy target could be compromised as was the case when deemed solar hot water heaters were allowed in.

Should additional eligible technologies under the SRES be limited to generation technologies?

Yes, for reason explained above.

Is deeming an appropriate way of providing certificates to SRES participants?

Upfront crediting of certificates does call into question the equity of the Renewable energy scheme.

Are the deeming calculations for different small-scale technology systems reasonable?

LMS has no comment.

What are the lessons learned from the use of multipliers in the RET? Is there a role for multipliers in the future?

Over generous multipliers combined with deeming, generous Feed in Tariffs and installation grants crowded out large scale renewable energy generation in the economy. The overzealous arrangements have cost Australia at least four years of appropriate large scale renewable energy investment.

Is the Small-scale Technology Certificate Clearing House an effective and efficient mechanism to support the operation of the SRES?

No comment.

Should changes be made to the Clearing House arrangements? If so, what would be the costs and benefits of any suggested alternative approaches?

No comment.

Is $40 an appropriate cap for small-scale certificates given the recent fall in cost of some small-scale technologies, particularly solar PV?

No comment.

Are the SRES administration arrangements appropriate and working efficiently?

No comment.

Diversity of renewable energy access

Should the RET design be changed to promote greater diversity, or do you think that, to the extent that there are barriers to the uptake of other types of renewable energy, these are more cost-effectively addressed through other means?

The RET should not be changed to promote greater diversity. The RET design should be focused purely on encouraging technology neutral Renewable Energy. The industry is lacking certainty, this RET review needs to focus on providing certainty. Implemented properly the RET will provide a great investment platform for renewable energy – but when the RET tries to diversify large scale renewable energy investment is often crowded out.

Barriers to the uptake of other types of renewable energy would be more cost-effectively addressed through alternate means.

What would be the costs and benefits of driving more diversity through changes to the RET design?

The costs of more diversity in the RET could be the crowding out of more efficient large scale renewable energy investment in the long run, as was seen by the over generous arrangements for small scale photo voltaic and solar hot water heaters. It will also create more uncertainty, stalling future investment and renewable energy generation.

Review frequency

What is the appropriate frequency for reviews of the RET?

The review brings about uncertainty. Therefore the frequency of future reviews should be less often, two years is too often. A review every five years would be adequate with perhaps a provision to allow an extraordinary review should the RET be discovered to have a significant fault.

What should future reviews focus on?

The review should focus on adjusting at the edges, not reviewing the whole design every two years. Allowing a full review every two years does not provide the required certainty for the industry.

If targets are to be focused on, it should only be future long dated targets that can be changed. For example where a fixed target is set at 41,000 GWh at 2020 this target cannot be changed, but the targets thereafter could be moved to meet higher a percentage of renewable energy. Otherwise the renewable energy industry has no way of ensuring investment certainty.