14 September 2012

Chief Executive Officer
Climate Change Authority
GPO Box 1994
Melbourne VIC 3001

By email: submissions@climatechangeauthority.gov.au

Dear Ms Harris,

Renewable Energy Target Review, Issues Paper

Alinta Energy welcomes the opportunity to make a submission in response to the Renewable Energy Target Review, issues paper, released in August 2012.

Alinta Energy commends the Climate Change Authority on the quality of the issues paper and the careful and thorough analysis contained within. The issues paper provides an authoritative overview of the Renewable Energy Target and the issues that require careful consideration by stakeholders, and in particular energy sector participants.

Alinta Energy acknowledges that the Renewable Energy Target's settings are of critical importance to ensuring an appropriate balance between renewable energy objectives and overall economic well-being. In that context, Alinta Energy welcomes the timing of the current review.

In addition to outlining Alinta Energy's perspectives on the Renewable Energy Target and its impacts, the purpose of the attached submission is to detail the range of proposals that Alinta Energy believes should be appropriately considered by the Climate Change Authority in light of energy price outcomes and forward demand projections.

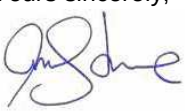
While it is unlikely all of these proposals could be recommended by the Climate Change Authority, Alinta Energy is certain the Climate Change Authority's analysis will be strengthened by their consideration at this stage.

Alinta Energy does identify a number of specific proposals that represent no regrets options at this point in time. Further, each of the proposed options for adoption at this time are consistent with the principle that: existing investments, both those made pursuant to the Renewable Energy Target and existing non-renewables, should not be undermined by any changes to the Renewable Energy Target or failure to consider the full effect of changing market conditions and complementary policies.

Alinta Energy welcomes the Climate Change Authority's consideration of the attached submission.

Should you have any queries in relation to the Alinta Energy submission, or wish to discuss these matters more generally, please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely,



Jamie Lowe
Manager, Market Regulation

Renewable Energy Target Review
Submission in response to Issues Paper

Introduction

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), with in excess of 700,000 retail energy customers in Western Australia, Queensland, New South Wales, South Australia and Victoria and a commitment to growth across the National Electricity Market.

Alinta Energy is directly impacted by obligations arising under the *Renewable Energy (Electricity) Act 2000* (the Act) and needs to make a range of considered and challenging decisions pursuant to these obligations in an ever changing market environment.

Given the changing market environment, it is appropriate that the Renewable Energy Target (RET) be reviewed and judged against its initial objectives and assumptions, these being:

> *(a) to encourage the additional generation of electricity from renewable sources; and*
>
> *(b) to reduce emissions of greenhouse gases in the electricity sector; and*
>
> *(c) to ensure that renewable energy sources are ecologically sustainable.*

This submission seeks to consider the issues raised by the Climate Change Authority (CCA) in the comprehensive issues paper and in light of the objectives of the Act and related instruments and where possible encourage action to reduce negative outcomes associated with the RET.

Analysis of issues

Policy and investment certainty in the Australian energy sector

The Australian energy sector is currently facing significant policy and regulatory challenges. As a consequence, it is essential that policy reforms do not undermine investor certainty while acknowledging the need for clarity on a range of market developments.

In relation to the RET this should translate to ensuring any potential policy changes do not result in a loss of asset value where investments are sunk. It is also critical any change occurs in a way which does not financially penalise investors who have relied upon the RET to build existing power stations or have already committed to projects pursuant to the RET.

Likewise, the RET was intended to push forward a number of renewables technologies not damage the viability of individual power plants. Should it be the case that existing non-renewable projects are being disproportionately impacted by the RET, then it is appropriate to review the policy to alleviate any disproportionate impacts.

On this basis, Alinta Energy supports the adoption of the following principles:

1. Existing investments and committed projects should not be penalised by any reform of the Renewable Energy Target.
2. Existing non-renewables should not be stranded as a consequence of the Renewable Energy Target; either due to unintended consequences or disproportionate impact.

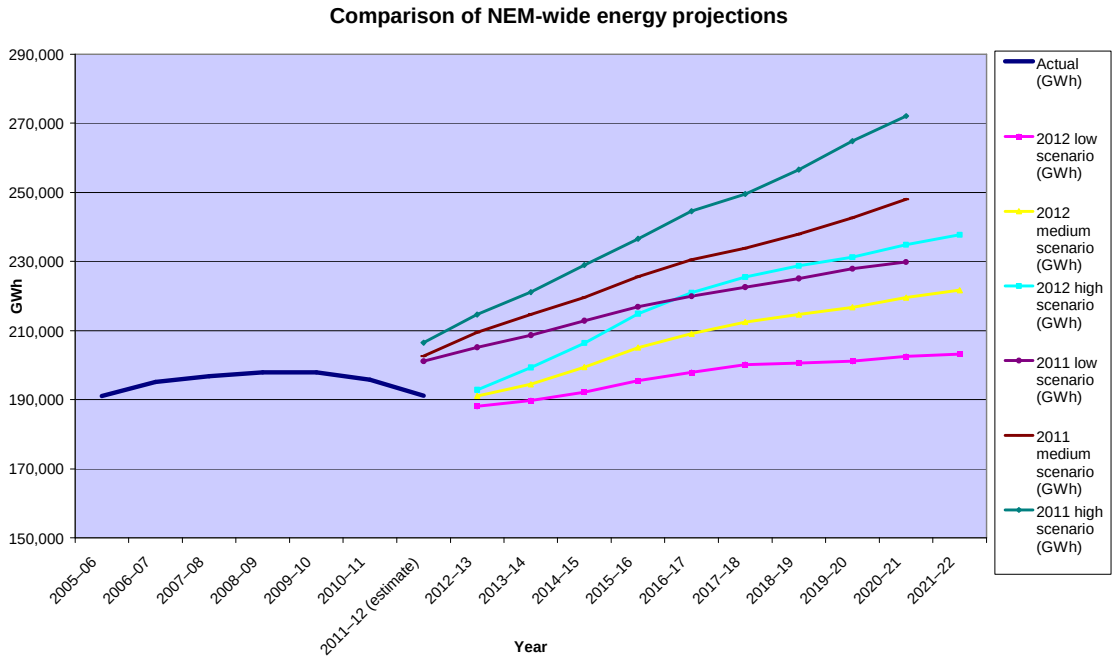
Evolving market conditions

The recent Australian Energy Market Operator (AEMO) energy demand projections provide an important backdrop to the RET review. The projections illustrate that there has been a fundamental reduction in demand that is expected to continue in the outgoing years. The change in supply demand outlook, under a medium growth scenario, is replicated below.[1]

Table 1 — Supply-demand outlook update (medium scenario)

Region	2011 ESOO Update		2012 ESOO	
	LRC point	Reserve deficit (MW)	LRC point	Reserve deficit (MW)
Queensland	2013–14	341	2020–21	79
New South Wales	2018–19	190	>2021–22	-
Victoria	2015–16	96	2018–19	115
South Australia	2014–15	46	2019-20	24
Tasmania (summer)	>2020-21	-	>2021–22	-
Tasmania (winter)	>2021	-	>2022	-

The noted adjustments, where each of the high, medium and low scenarios developed by AEMO has decreased since 2011 is further illustrated in the following chart. AEMO also notes in its analysis that since 2009-10 annual energy in the National Electricity Market has been decreasing by around 1.7 per cent per annum.[2]



[1] Australian Energy Market Operator, 2012 Electricity Statement of Opportunities, pages iii
[2] Australian Energy Market Operator, 2012 Electricity Statement of Opportunities, pages 2-11 – 2-12

This demand reduction has two significant implications for the RET as currently set.

First, it implies that the current fixed target will deliver a proportion of renewable energy well in excess of the Government's initially mandated 20 per cent by 2020. A range of estimates suggest the current fixed target could result in renewable energy contributing up to around 30 per cent of supply.

Second, it requires consumers and existing generators to absorb a greater than anticipated cost per MWh of consumption than would have been the case had demand continued to rise in line with previous forecast data where the RET's fixed target of 45,000GWh equated to 20 per cent by 2020. While there will always be a level of inherent tension between economic and environmental goals, if not addressed, the current cost could compromise the value of the RET and energy sector viability.

Impact of reduced demand on existing generation and security of supply

Alinta Energy has previously expressed concern about the long-term implications of significant subsidised wind generation. This is informed by the experience of consumers and emphasises the concerns of a RET exceeding the initial 20 per cent target and the noted reduction in demand.

The corollary of lower demand is a significantly reduced need for new generation as is now the case across the National Electricity Market and doubt that the 45,000GWh objective is actually obtainable. As an aside, it has also been suggested that, regardless of the reduction in demand, the ability to build the amount of transmission investment required to connect 45,000GWh of renewables by 2020 is not feasible. Alinta Energy looks to the Climate Change Authority's engagement with transmission experts and businesses to clarify this view.

Lower demand means the expectation that the RET would crowd out new build, by weighing investment decisions towards subsidised renewables, needed to meet demand will now not occur. Instead, subsidies will continue to incentivise wind generation that will simply further undermine the profitability of existing unsubsidised assets. The implications of not building more thermal plant in favour of subsidised wind farms is dramatically different from renewable energy eroding the financial viability of base load power stations needed to ensure system security.

It is established that the introduction of significant amounts of renewable energy undermines the financial viability of non-renewable generation sources and introduces distortions into the market which will have to be accounted for through price increases or business failure. The reduction in demand, the achievement RET in excess of 20 per cent should the policy not be corrected, and further erosion of existing generators' revenue will only exacerbate existing concerns. Alinta Energy has previously raised these issues in the context of South Australia given the impacts on Augusta Power Stations.

Likewise, a higher RET would be significantly distorting and would result in less viable and higher risk projects being pursued at the expense of existing and reliable base load assets.

What is occurring in practice is that non-renewable energy generators, who do not benefit from Renewable Energy Target subsidies, earn less from the pool and contract markets than would otherwise occur. This is because the supply curve has moved and no longer results in price being set by the optimised portfolio but a distorted subsidised portfolio where costs of generation are partially met outside the market. Hence, there is a transfer of wealth to renewable energy generators from consumers and from non-renewable generators. In the case of South Australia this means wind farms benefit from an implicit subsidy at the expense of non-renewable generators.

Wind generators, through the RET, are generating pool revenue and are given preference in the pool as their short-run costs are effectively zero. This, in addition to being provided with Renewable

Energy Certificates, is the reason wind farms often bid negatively in the pool. Wind generators continue to generate and earn revenue through Renewable Energy Certificates regardless of the spot price and even though the spot price is lower overall, as the supply curve has shifted to the right, the wind generators are dispatched at prices that are still profitable for wind generators as it is expected that thermal generation will bid a higher price (based on higher fuel costs) at which the market will settle.

System security is compromised as wholesale prices are not sufficient to cover capital and operating costs and therefore new non-subsidised renewable generation is unlikely to be built. This leads to downward spiral in the investment climate in the electricity market.

Second, existing generators will also not be able to cover costs, which are compounded by the introduction of carbon, and that places those generators under financial pressure. Those generators are likely to adjust their operation in response. In order for such plant to return to the market and for investors to build additional non-subsidised generation, requires a step-up in prices. Any outcome otherwise can lead to potential business failure as actual costs cannot be recovered. Evidence of business failure will also lead to an investment drought. It would be expected, should the situation for non-subsidised non-renewable generation continue to deteriorate, prices would undergo a 'jump' at some stage to enable recovery of long-run costs.

Third, while subsidised wind generation produces lower pool prices in the short-term, wind farms have higher average costs for generation equipment. These costs ultimately can only have the effect of increasing overall electricity bills, whether masked through Renewable Energy Certificates, carbon pricing or distorted market outcomes transferring wealth from non-renewable producers to renewable producers. The RET is an aggressive subsidy to facilitate investment in high average cost, low marginal cost plant for the purpose of meeting social and environmental goals. However, any purported economic gains are illusory as customers ultimately pay for the distortions that emerge from this process and hence, the clear rationale for rebalancing where the objectives would lead to financial over-stretch.

This does not mean that an element of subsidisation is not justifiable from a policy perspective to advance social and environmental goals. Nevertheless, it does warrant consideration of the limits of this approach in any one market or sub-market and consideration of the risks placed on any one group of generators. For instance, non-renewable, non-subsidised generators in South Australia bearing the brunt of the costs of a national renewable energy policy which is placing pressure on one region within the National Electricity Market.

Given South Australia's disproportionate amount of wind generation and the expectation, outlined by the AEMO, that amounts of new wind generation in South Australia may lead to frequent price collapse events there up to 20 per cent of the time[3], calls for action are justifiable.

Failure of Renewable Energy Target to promote innovation

A related issue that should also be considered in the context of the above is the failure of the RET to promote innovation in the development of renewable energy sources.

It has been previously suggested, and is widely agreed, that the RET is not responsible for driving abatement across the economy – this is the role of carbon pricing. The RET is responsible for supporting the introduction of renewable forms of generation across Australia and targeting emissions reductions in the energy sector. In that regard, it is effectively an innovation policy responsible for supporting forms of renewable generation that would otherwise not be deployed in the absence of the RET subsidy.

[3] Australian Energy Market Operator, 2012, Wind Integration In Electricity Grids Work Package 5: Market Simulation Studies, January 2012, Page 2

This view is echoed in the explanatory memorandum of the Renewable Energy (Electricity) Amendment Bill 2010 where it was stated that:

> The RET scheme will help to transform the electricity sector and drive the shift to low pollution electricity generation by accelerating the deployment of a range of both small and large-scale renewable energy technologies like wind, solar PV, biomass, geothermal power and solar hot water over the next two decades.

Since the introduction of carbon pricing it is more relevant to assess the RET on the basis of its ability to deploy a range of renewable technologies – the innovation perspective of the policy.

On this measure it can be suggested the RET is failing and it has in fact become an industry support scheme for wind generation. Wind generation is no longer innovative of itself and the benefits of further wind generation are debateable. Alinta Energy is particularly aware of the dominance of RET driven wind generation given its strong involvement in the South Australian market. It is appropriate to consider the benefits and risks of maintaining the RET in a form that is dominated by one form of existing technology or by one region over all others.

Perspectives on South Australia

A unique feature of the South Australian market is the degree of wind capacity that is connected to the South Australian transmission system. According to the AEMO, South Australia is second to the Iberian Peninsula for world's highest wind penetration.

With around 265MW of wind in New South Wales, approximately 506MW in Victoria, 140MW in Tasmania, and 0MW in Queensland, South Australian wind generation of 1205MW far exceeds the other National Electricity Market member states and represents over 50 per cent of National Electricity Market wind capacity and is still growing.

In order to meet the RET, expectations are for further investment in wind across Australia, around 6300MW of new generation 2020-21[4], and South Australian estimates of around 3500MW of installed capacity by 2019-2020 under some scenarios.

The amount of wind generation in South Australia is at such a level that current installed wind capacity can at times exceed the lowest levels of South Australian demand, ~1000MW.[5] This reflects the relatively weak correlation between regional demand and aggregate regional wind capacity and output.

Current evidence and modelling suggest that wind generation does not make a significant contribution to peak demand in South Australia, with some historical evidence of around 5% contribution to summer peak demand.[6] Wind of itself cannot be relied upon to meet South Australian customers' energy needs. Unlike gas generation, the other fuel source where there is some commitment to generation projects, which is capacity driven, wind generation is driven almost exclusively by the RET.

Customer energy price outcomes

A significant theme that has driven much of the policy and political discourse around energy and climate change policies in recent months has been the energy price outcomes for consumers and the impacts of price variables. While network charges have been a major driver of price outcomes this debate has included concern with the effects of renewable energy policies.

[4] Australian Energy Market Operator, 2010 National Transmission Development Plan, ix
[5] Australian Energy Market Operator, 2011 National Transmission Development Plan, page 4-2
[6] Australian Energy Market Operator, 2011 National Transmission Development Plan, page 4-5

Both the Australian Energy Market Commission and the Independent Pricing and Regulatory Tribunal have undertaken useful studies in this area. For example, using New South Wales regulated tariffs as an example, retail prices increased by 6% following the introduction of the SRES in 2011; and a further 9% following the introduction of carbon pricing in 2012.

Alinta Energy remains concerned about rising costs that are ultimately borne by consumers. Alinta Energy believes it is critical that consumers have a strong sense of certainty around energy prices and energy price projections to enable consumption of the level of energy that meets their needs at a known cost.

Alinta Energy believes industry should remain committed to identifying and addressing price drivers in consumer energy bills and considers that those aspects that do not face competitive market tension – e.g. networks and government policy initiatives – require the closest review. In that regard, and in light of the identified costs, it is appropriate to assess the effectiveness of the RET at this time.

Role of the Renewable Energy Target with introduction of a carbon price

Alinta Energy notes the arguments that it is the primary purpose of carbon pricing to drive abatement not the RET. This is supported by the Productivity Commission's analysis which demonstrated that in 2010 carbon pricing would have delivered equivalent demand-side abatement at a fraction of the cost[7] of interventionist policies.

With the introduction of carbon pricing the RET should be judged on its ability to assist where barriers exist. This is in innovation. Alinta Energy continues to examine renewable energy proposals as part of developing a mix of electricity supply options; however, Alinta Energy is not convinced that subsidising existing technologies, in the form of wind generation primarily, continues to make long-term sense especially where subsidies may interfere with efficient pricing[8]. This is particularly the case if it is believed cost curves should reduce over time as experience grows as is generally observed when dealing with new technologies, also known as "technology learning".[9]

Reliance on the carbon price and not the RET moving forward will lead to more efficient abatement outcomes and drive a broader range of renewable energy initiatives; however, while this may challenge achievement of the current 45,000GWh target by 2020 it would drive longer-term shifts to lower carbon intensive forms of generation including gas technologies in a more cost-effective fashion.

Clean Energy Finance Corporation and Australian Renewable Energy Agency

As previously discussed the bulk of RET promoted generation has occurred in South Australia in the form of wind generation. One of the attractions of the Clean Energy Finance Corporation (CEFC) and the Australian Renewable Energy Agency (ARENA) is the potential to promote non-wind renewable opportunities, a clear intention of the RET when it was initially conceived but has yet to deliver.

It is expected that projects built in conjunction with the CEFC and ARENA would accrue Renewable Energy Certificates and any attempt to quarantine those projects would add undue complexity and potentially erode the viability of those assets. On that basis, projects developed by the CEFC and ARENA should be included in the RET. This would seem incontrovertible.

[7] Productivity Commission, 2011, Emission Reduction Policies and Carbon Prices in Key Economies, pg XXXIX
[8] It has been hypothesised that global policies supporting wind farm deployment allows greater opportunities for profit making by manufacturers and suppliers who form a constraint on supply to a growing market.
[9] Hayward, Jenney and Graham, Paul, 2011, Developments in technology cost drivers – dynamics of technological change and market forces, CSIRO, pg 4.

Nevertheless, an issue for dispute is whether a portion of the RET should be set aside for CEFC and ARENA projects only. This may be dependent on the funding pipeline expectations. For instance, the benefits of a carve-out are likely to be accentuated where the projects sponsored by the CEFC and ARENA are non-wind generation. Should the CEFC, for instance, provide the bulk of its funding to existing wind technology then a carve-out may have little cumulative impact.

Issues associated with the small-scale renewable energy scheme

There are a range of views on the operation of the small-scale renewable energy scheme (SRES); however, it is apparent that the carve-out has been successful in improving the operation of the RET notwithstanding the SRES administrative issues remaining. As such, given the significant work that has gone into developing the SRES it would seem unlikely the SRES would be rolled back into the RET even if there were clear reasons to do so; however, it is worth exploring ways to manage and reduce the costs of the SRES going forward.

Small-scale target

Given the general industry concern with the size of the RET, particularly in light of falling demand, the uncapped nature of the SRES does not seem appropriate moving forward. There are some views that the growth in the SRES could lead to up to 8000GWh of generation as opposed to the often cited 4000GWh.

A realistic appraisal of the SRES generation leads to a view that the SRES be capped, including at a higher level, and or the large-scale renewable energy target (LRET) component of the RET be reduced irrespective of consideration of demand reduction issues.

The introduction of a cap, of whatever size, arguably resolves a number of administrative issues including the future of the clearing house. A cap would suggest the clearing house is not required with units cleared on the market once any transitional issues are resolved.

Small-scale eligibility framework

One issue of interest is the criteria to permit additional technologies, certain energy efficiency measures and displacement technologies within the RET and specifically the SRES. One argument in support is that the greatest benefit of the SRES is not installing existing technology, which is becoming cost-effective independent of the SRES, but generating opportunities for new technology – so called 'push' factors.

At present, there is little evidence that the SRES is driving investment in new technologies or in diverse skill sets given the bulk of small-scale generation initiatives relate to solar water heaters and solar photovoltaic rooftop panels. Expanding the range of technologies admitted into the SRES would address this. A corollary of the extension of the SRES would be the reduced impact on new transmission infrastructure that it has previously been suggested will not be built in time to meet any 2020 objectives and that the SRES would need to be acknowledged and measured as a specific capped portion of the RET.

An expansion of the SRES or the development of a clear cap also provides an opportunity to address the imperfect nature of the current deeming provisions. There has been concern expressed at the creation of small-scale certificates deemed for 15 years where there exist valid questions as to the longevity of the particular small-scale assets in receipt of certificates.

It is clear that investments in small-scale technology are entitled to an appropriate number of certificates; however, in the absence of metering data a more prudent approach to deeming needs to be considered. This prudent approach is reinforced by the adverse experience of multipliers which have delivered disproportionately high-cost renewables and abatement.

While there is some support for multipliers in individual sectors of the market, it is suggested these ultimately cause significant disruption in the industry at notable cost to consumers. The only viable alternative to a market-based approach for price clearing and the absence of a multiplier is direct government funding without a RET.

Issues relating to standby plant and the 100MW grid test for 'relevant acquisitions'

Alinta Energy has previously approached the Clean Energy Regulator regarding the impact on isolated generation of the 100MW grid test for 'relevant acquisitions', due to the effect of sections 31 and 33 of the Act and regulations 21 and 22 of, and the definition of "standby plant" in, the *Renewable Energy (Electricity) Regulations 2001*.

In respect of isolated gas fired generation, it is often the case that diesel fired generation is the only alternative. These provisions have the unintended consequence that redirected gas-fired grid-connected generating plant is placed at a competitive disadvantage to owner-operated diesel generation where that installed capacity is above 100MW, regardless of *actual usage* of the generating plant.

The resulting competitive advantage of diesel-fired generation, which will *not* cause 'relevant acquisitions' and therefore *will not* trigger renewable obligations, compared with the grid-connected gas-fired generation, which *will* cause 'relevant acquisitions' and therefore *will* trigger renewable obligations, squarely runs contrary to the second object of the Act.

The provisions have this effect because they do not contemplate that generating units may be disconnected from one grid and connected to another grid to meet a different operating demand and profile. The provisions apply so that, as a result of its 3-year operating history, existing generating plant cannot be classified as standby plant despite the fact that, going forward, the generating plant will meet the standby plant test. So, historical operating history, *not actual operation*, determines whether generating plant contributes to meeting the 100MW grid test, causing 'relevant acquisitions' and therefore triggering renewable obligations.

Technically, not even new, purpose-built, dedicated standby generation can be classified as standby plant until it has a 3-year operating history demonstrating that it meets the test in the regulations. This cannot be the intended effect of the law.

This issue came to Alinta Energy's attention in relation to a power station it owns and operates in the Pilbara. It is proposed to disconnect four generating units with a collective generating capacity of over 100MW from a grid that meets the 100MW test and connect them to a new grid. When connected to the new grid, the generating units will be required only to meet a load demand for a singe customer of less than 70MW, and will be installed and configured so that 2 units will effectively operate as standby plant however, due to the 3-year historic operating regime of the units, they cannot be classified as standby plant.

Reform options

The CCA issues paper and the analysis above details a series of significant issues that require consideration at this time. In light of this analysis there are a broad range of viable options available to Government.

Possible changes to Renewable Energy Target 45,000GWh objective

- Expand or reduce the RET or maintain the status quo.
- Introduce a reduced fixed GWh hour target to account for changed market conditions, based on the experienced demand reductions and forward estimates.
- Introduce a floating target based on annual demand outcomes.
- Extend the current target out till 2030.

Technology and geographic options

- Limit the portion of additional wind generation that can be introduced to account for the established nature of this technology.
- Introduce specific technology bands i.e. wind, solar, geothermal etc within the RET to assuage the dominance and distortions created by wind.
- Limit the amount of renewable generation as a proportion of energy permitted in each region of the National Electricity Market/jurisdiction to limit weighting towards South Australian wind generation so as to: (a) spread benefits of wind generation across regions; (b) limit market imbalance developing in South Australia; and (c) create additional drivers to develop non-wind resources.
- Expand the range of technologies considered eligible for renewable status in both the LRET and SRES.
- Remove the hydro-generation 1997 baseline or introduce an adjustment mechanism that incentivises updating existing hydro-generation assets.

Small-scale renewable scheme

- Roll the SRES and LRET back into a single RET to have a combined capped target.
- Maintain the current uncapped arrangements and administrative arrangements.
- Introduce a fixed cap of 4000GWh, the current expectation.
- Introduce a fixed cap in excess of the currently anticipated 4000GWh to a more appropriate expectation of around 8000GWh or similar.
- Expand the range of technologies considered eligible for renewable SRES including displacement technologies.
- Remove the deeming provisions.
- Introduce conservative deeming provisions and provide credits for the existing periods only where metering has been introduced or is available.
- Prohibit the use of multipliers moving forward.
- Clear STCs on the market and disband the clearing house.

Clean Energy Finance Corporation and Australian Renewable Authority

- Quarantine a portion of the RET for CEFC and ARENA endorsed projects.
- Partition the CEFC and ARENA from RET.

Issues relation to standby plant and the 100MW grid test for 'relevant acquisitions'

- Continues to disadvantage displacement generation outside of the National Electricity Market over high-emissions owner-operated diesel generation.
- Remove the 3-year operating history test and include a test of fact based on actual generation in the given year to determine whether a generation facility meets the definition of standby plant or less than 100MW; or
- Include an express 'change of circumstances' provision so that the 3-year operating history does not apply where generating plant has been disconnected from a 100MW grid.

Alinta Energy's proposed approach

Alinta Energy does not support the status quo. There are sufficient concerns with the operation of the RET and clear understanding of the economic distortions created to justify amending the scheme as part of this review.

For the headline objective, Alinta Energy does not support a rolling cap based on yearly demand projections; however, Alinta Energy considers amending the target down, in response to existing market conditions, to be a no regrets option that can be revisited in 2014 at the time of the next review. Amending the policy down will not impede existing and committed wind projects but will

minimise deleterious effects given the ongoing cost to consumers in an environment where demand has reduced.

While a total RET of 35,000GWh could be considered an appropriate revision, Alinta Energy recommends the CCA develop an approach to calculate the amended RET. Alinta Energy supports this new 35,000GWh cap including the SRES component and applying to a broader range of technologies including revisiting the treatment of hydro-generation.

In the absence of adoption of this policy Alinta Energy would at the very least recommend extending the existing target out to 2030 with an adjusted yearly trajectory.

Alinta Energy is reluctant to support the introduction of technology bands as this may not be the most efficient way to create 'space' for the development of non-wind generation under the RET. In lieu of bands, Alinta Energy prefers the CCA considering the adoption of a regional limit on wind generation in each jurisdiction's interconnected electricity transmission network. Alinta Energy nominates the '40:20' rule.

The 40:20 rule works by having a national target of 20 per cent implemented via a limit of 40 per cent of energy in each State. In this way, regardless of the amount of capacity created in any jurisdiction for the purposes of generation investment, there will be a limit on the number of Renewable Energy Certificates purchasable from each region by retailers. These 40 per cent threshold will drive renewable generation investment in jurisdictions across Australia and better contain distortions and wealth transfers.

In relation to the SRES, if the CCA is not minded to recommend rolling the SRES back into the broader RET and utilising a single cap then it is appropriate that a new hard target for the SRES be applied either at the existing 4000GWh level or another number deemed appropriate by the CCA, possibly 6000GWh. Whether or not the SRES cap is lifted above the existing 4000GWh, so as to make up a greater proportion of the RET, the SRES should be expanded across a wider range of technologies.

Alinta Energy recommends the clearing house be disbanded, a preference for metering for SRES technologies be adopted going forward and a downward adjustment of the current deeming arrangements in the absence of metering, and a prohibition on the use of multipliers.

Alinta Energy's preference is that ARENA contribute to the RET in the development of new technologies not already viable and that CEFC funds be utilised to develop projects where it is expected that the RET will not be achieved or the projects fall outside of the RET target but produce significant abatement opportunities (e.g. transmission or supply projects). Nevertheless, Alinta Energy appreciates the CEFC and ARENA mandates are not part of this review and therefore suggests the CEFC and ARENA contribute as a quarantined portion of the RET to a maximum threshold (i.e. between 0GWh and *X*GWh).

Concerning the application of the 100MW grid test and the classification of plant as standby plant, Alinta Energy encourages the CCA to recommend the removal of the 3-year operating history test and inclusion of a test of fact based on actual generation in the given year to determine whether a generation facility meets the definition of standby plant for the purposes of assessing the capacity of a grid at 100MW or inclusion of an express 'change of circumstances' provision to apply where generation plant is disconnected from a 100MW grid. This will resolve the problem for new plant and for existing plant connecting to a new grid.

Conclusion

Alinta Energy supports the Climate Change Authority's significant work in conducting this review and welcomes consideration of the options and suggested changes outlined in this submission.

Alinta Energy remains convinced that failure to address the evolving market at this time presents a greater threat to the sustainability of the RET than addressing the matters at hand.

It is preferable that amendments occur in a way that will not undermine existing RET investment, but also does not ignore wealth transfers and costs to existing non-renewable businesses, as is often the case in arguments in support of the RET.

It is necessary to acknowledge that the RET has itself create policy uncertainty and that amending the RET from the current 45,000GWh to address evolving market conditions and a broader range of considerations will reduce uncertainty, improve investment prospects, and better contribute to the achievement of renewable energy policy objectives over the medium and longer term.