14 September 2012

Submissions
Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

By email: submissions@climatechangeauthority.gov.au

Dear Sir/Madam,

Submission on Renewable Energy Target Review Issues Paper

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

About WestGen

WestGen Pty Ltd is a renewable power development company, with an experienced team that has successfully developed over 2,000MW of greenfields power projects in Australia. WestGen's focus is on developing a range of renewable energy projects in Western Australia, especially solar and biomass.

WestGen is in a joint venture partnership to develop a 40MW biomass project in the State's south west, and is well advanced with a number of large scale solar projects (30MW and larger) in the Mid West region of WA and the outer metropolitan area of Perth.

Summary

WestGen supports the Renewable Energy Target (RET) and maintaining it at the current GWh target. From the point of view of a power development company, the RET is the key policy vehicle which underpins investment in renewable energy projects. It is a market based mechanism which has been extremely successful to date in stimulating development and investment in clean energy, and has also led to better utilisation of renewable energy in power markets.

While other initiatives such as the carbon price, the Australian Renewable Energy Agency and the Clean Energy Finance Corporation are welcome, WestGen believes that the RET is the most appropriate mechanism in the short to medium term to support investment in cleaner energy projects and transition the economy away from dependence on fossil fuels, especially for power generation.

The RET has provided certainty to developers, investors, lenders, retailers and consumers. That certainty is required to give developers confidence to continue with their projects. In Western Australia, in particular, there is enormous potential for the roll-out of large scale solar power, given its high solar radiation levels and high wholesale power prices compared to the eastern states.

Policies such as the RET, which have been replicated in other countries, have led to larger scale and more efficient production of renewable energy equipment. The price of solar PV cells and wind turbines has fallen dramatically as a result of these investments in production capacity, reducing the gap between renewable and conventional energy. There is still a little way to go, but it must be remembered that these improvements in the scale and efficiency of production, built upon policies such as the RET will ultimately lead to renewable power being able to compete with fossil fuels.

The Renewable Energy Target has been one of Australia's most successful public policy measures of the past decade – one which has been supported by all federal political parties. The RET's achievements are substantial:

- It has stimulated more than $20 billion in private investment in household and large-scale renewable energy since it was established.
- Renewable energy now constitutes a growing portion of power supplied into the major grids in Australia.
- The track record for deployment of renewable energy projects under the RET is impressive; numerous large scale wind projects have been taken though from initial greenfields development, to financial close, construction and operation.
- The next phase of investment in renewable energy under the RET policy will be large scale solar PV.

Now is not the time to introduce uncertainty to developers, investors, retailers and customers. The RET, with its current GWh target, provides a clear investment profile for all those engaged in the power industry. It is the only clean energy policy that is supported by all major political parties, and so needs to be the core policy that continues unchanged to provide that certainty.

The RET has been very successful and the evidence is that the capital cost for renewable power plants is falling and so wholesale power prices will fall – but only if policy certainty is maintained.

General Comments on Issues Paper

WestGen welcomes the opportunity to comment on the Issues Paper. However, a general comment is that opening up the review of the Renewable Energy Target to consider a broad range of issues introduces a degree of uncertainty which was not anticipated by industry. WestGen supports the Climate Change Authority conducting its review expediently so as to reduce uncertainty in the renewable energy industry, and so as not to jeopardise investment in a large number of projects that are currently under development.

WestGen notes the Climate Change Authority has a statutory obligation to ensure the RET Review's recommendations are consistent with the objectives of the Act, that is, to:

- Encourage the additional generation of electricity from renewable sources;
- Reduce emissions of greenhouse gases in the electricity sector; and
- Ensure the renewable energy sources are ecologically sustainable.

The Climate Change Authority also has a statutory obligation to ensure the RET is consistent with the following principles:

- Be economically efficient;
- Be equitable;
- Be in the public interest;
- Take account of the impact on households, business, workers and communities;
- Support the development of an effective global response to climate change;
- Be consistent with Australia's foreign policy and trade objectives; and
- Any additional principles the Authority considers relevant.

WestGen considers that the RET meets the above principles.

WestGen is a leading renewable energy developer in Western Australia, with three major projects under development. We understand that projects only succeed when they are based on strong commercial fundamentals, and market mechanisms apply. The RET is a market mechanism that works. It is agnostic as to technology, to location and to the proponent. It simply sets a target and lets the market participants work out how best to meet that target in the most efficient and commercial way possible. But its success is based on its simplicity and the certainty that it will remain in force at a known target level so that market participants can make the most efficient and appropriate decisions. Changing the rules and the targets when only a short way into the term of the scheme is not only counterproductive, it could lead to many players abandoning the market because it raises the risk profile to an unacceptable level.

Recommendations

- That the Climate Change Authority explicitly states the RET Review is being undertaken as a statutory obligation under the *Renewable Energy (Electricity) Act 2000* and expedites its review process to give certainty to developers and investors.

Renewable Energy Target Overview

Success of the RET

The RET is the most successful and effective public policy measure to move Australia from excessive reliance on fossil fuels for electricity towards a clean energy economy, and the only long-term measure providing investment certainty.

The RET has strong bipartisan support because it works. The RET was originally introduced by the Howard Government in 2001 as the Mandatory Renewable Energy Target. The target was expanded by the Rudd and Gillard Governments, ensuring that more than 45,000 gigawatt hours of electricity will be generated from renewable energy sources in 2020. The RET is a market-based mechanism that drives a cost-effective transition to clean energy, with associated investment in new clean energy industries and employment in Australia.

The RET has delivered cost-effective clean electricity for consumers, helped to reduce wholesale electricity market prices, and though its suitability for distributed generation will help to reduce electricity network costs that are causing retail electricity price increases.

More than $20 billion has already been invested in domestic and industrial-scale renewable energy since the RET was established.

The renewable energy deployed as a result of the RET is significantly reducing wholesale energy costs for all Australians. Solar and other renewable energy deployed with assistance from the RET has helped to reduce electricity demand and network capacity pressures and has major potential to contribute to reducing network costs. With $120 billion planned network expenditure to 2030 the RET must not only continue but also be extended, to ensure Australia's electricity network is equipped to deliver greatest cost efficiency for Australia's future.

Renewable Energy Policies in other countries

WestGen welcomes the Issues Paper's reference to renewable energy targets around the world. There are legislated or planned renewable energy targets in 85 countries, which is providing manufacturers with the certainty and confidence to invest in large scale production capacity, substantially reducing the capital cost of renewable power plant.

Since the Issues Paper was released, it is believed China has doubled its domestic PV installation target to a staggering 40 gigawatts by 2015, with a potential target for 2020 of 100 gigawatts.

WestGen encourages the CCA to highlight the significant successes of the RET, and continue to remind Australians that renewable energy targets are core public policy measures throughout the world.

P: (08) 9467 9770 | F: (08) 6314 6646 | A: Suite 7, 56 Kings Park Road, West Perth, WA 6005

20% by 2020 Commitment

The Issues Paper makes three extremely important points in referring to the so-called 20% Renewable Energy Target (pp22-23). The RET has never been a 20% target:

1. The RET was originally a legislated target of 45,000 gigawatt hours. The Large-scale Renewable Energy Target (LRET) now has a fixed target of 41,000 gigawatt hours. The Howard Government's 2003 Tambling Review outlined the reasons for a fixed gigawatt hours figure and the CCA should endorse that conclusion.

2. The original policy objective (not legislated) was for the equivalent of <u>at least</u> 20 per cent of Australia's electricity generation to come from renewable sources by 2020.

3. The Australian Government has acknowledged the RET will now deliver more than 20 per cent of electricity generation.

As the Issues Paper notes, the 2003 Tambling Review concluded:

"By their nature, projections of electricity demand contain a degree of uncertainty…The Review Panel considers that a fixed target is more compatible with market certainty, with [the Target's] industry development objective, which defines a level of renewable energy generation rather than a percentage of a fluctuating electricity market over which the industry has no control".

The fixed gigawatt hour Renewable Energy Target has been national policy, supported by all political parties, since its establishment in 2001.

Response to Specific Questions

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?

The existing targets are sufficient to achieve the objectives of the RET.

Reducing the 41,000GWh LRET target will have a number of implications:

1. It will mean that investments made based on detailed forecasting of the value of LRECs are likely to under achieve – as a result of direct Government intervention rather than market outcomes.

2. Investors, whose support is needed for all forms of energy and infrastructure will have less appetite for the Australian energy sector, increasing the cost of finance and reduce Australia's ability to finance new infrastructure.

3. Australia's inevitable investment in renewable energy will be further delayed. Australian and international research has demonstrated that delays in the transition to low/no emissions power generation will significantly increase the costs to the economy as a whole.

4. The Australian market for renewable energy is significantly constrained by the difficulty of contracting long term power purchase agreements at economically viable (for the producer) prices. Any downward movement of the target from 41,000 GWH would further exacerbate this issue.

Any proposal to substantially reduce the LRET is a proposal to put Australia's clean energy future on hold.

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?

Australia is currently on track to meet the LRET, but it has failed to achieve an appropriate mix of renewable generation with the vast majority of LRECs being produced by wind. Other technologies such as large-scale solar can and will play a larger role between now and 2020, provided the target is not reduced.

If the target is reduced from 41,000 GWh, we will see a situation where almost all of our renewable generation is wind based. This will skew the generation profile of renewables away from peak times, reduce the benefit of reduced wholesale prices for electricity and leave Australia without large scale solar capability that will be crucial in meeting further targets.

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

As noted previously, the RET is, and should remain, a fixed gigawatt hour target. The Howard Government's Tambling Review outlined the arguments for a fixed target, and the CCA should endorse that view.

Projections on energy demand are notoriously difficult and should not be incorporated into the legislated target.

In essence, the fixed GWh target is required for two key reasons:

1. Only a fixed GWh target informs the market in a way that will encourage investment in long term assets.

2. There are a number of elements in the approach to reducing emissions, including more efficient use of electricity and distributed and embedded generation. Using a moving GWh target that is calculated as a percentage of demand has the impact of penalising outcomes from energy efficiency and distributed and embedded generation.

The percentage target should be called for what it is – a communications tool, which provides a simple message to the general public. It is not an "outcome", but rather an expression of what is trying to be achieved.

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?

WestGen believes there is a case for increasing the RET to incorporate renewable energy projects supported through the Clean Energy Finance Corporation (CEFC). This could help deliver a more diversified range of renewable energy sources, including commercial, community and large-scale PV and solar thermal, and will ensure the CEFC is not duplicating the important work of the Renewable Energy Target in delivering least cost renewable energy.

There are two possible ways of increasing the RET to incorporate CEFC projects:

1. Increase the RET to account for new generation capacity delivered through the CEFC. This will ensure the existing RET market is not distorted and CEFC support delivers new and additional investment, and moves Australia closer to a low emissions future.

2. Replace RECs for CEFC projects. This would mirror the current approach taken by the Clean Energy Regulator for waste coal mine gas projects. Projects supported by the CEFC would be eligible for RECs, and must be bought by retailers. The CEFC RECs are subsequently replaced in the market to ensure they are additional to the existing RET.

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

A list is the only practical approach to take. Adding to the list without increasing the target in effect reduces the available target for technologies already on the list and will have a similar impact to reducing the 41,000 GWh target itself. For this reason, if a decision is made to provide incentives for technologies not currently on the list, this should be done outside the current target – and included in a new post 2020 target.

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

WestGen considers that the small-scale and large-scale schemes should remain separate because:

- The drivers behind the investment in small scale and the investment in large scale systems are so different that a single scheme will not be effective.

- While decreasing system costs and increasing electricity costs means the level of support required to enable economic deployment of small systems to continue is also decreasing – and at some point will reach zero, access to the ability to generate electricity (and to generate clean energy) has become a significant social issue that cannot be ignored.

- While there are costs, as acknowledged previously, there are also significant benefits to the whole community and these could be maximised.

- Removing the stand alone SRES would effectively erode the target for large scale systems and cause the negative effects associated with reducing the 4,100GWh LRET target – reduced confidence, reduced investment and higher long term costs to the economy.

- While the costs of SRES has peaked (due to reduced multipliers and state based incentives), its value to the economy hasn't. Abolishing the Small-scale Renewable Energy Scheme (SRES) now would reduce the ability to access the benefits for minimum cost and reduce the stability of the sector.

- The SRES has been an extraordinary success story, with four million Australians having solar panels or solar hot water on the roofs of their homes and businesses, supported by the RET.

What is the appropriate frequency for reviews of the RET?

WestGen does not support a biennial review of the RET and urges the CCA to recommend the abolition of this review period. A biennial review is effectively a perpetual review, given the time it takes for the review to be undertaken, for the Government to respond and for legislation to be introduced and passed. This creates extraordinary instability for the renewable energy industry that has been bedevilled by the rollercoaster ride of constant changes to State and Federal Government policies and programs.