



14 November 2012

Ms Anthea Harris
Renewable Energy Target Review
Climate Change Authority
GPO Box 1944
Melbourne Vic 3001

Dear Anthea

**RE: AIGN Response to 26 October RET Discussion Paper and
5 November RET Sydney Roundtable**

Thank you for the opportunity to provide feedback on the Renewable Energy Target (RET) Discussion Paper issued on 26 October and to attend the Sydney Roundtable on 5 November.

Introduction

In offering a brief response to the Discussion paper I note AIGN's broad range of members results in a wide diversity of views on greenhouse and energy policy. This response accords with the views of AIGN members in general, but it does differ from the positions of some individual member associations and companies. Therefore it is important that the Climate Change Authority (CCA) takes AIGN's feedback alongside member responses made, in which they highlight issues of greatest importance to them.

As previously stated AIGN's view, and that of an increasing number of independent advisors, is that the policy argument for the RET has been overtaken by the changed environment. The carbon pricing mechanism is now to be the principal instrument to achieve reductions in Australia's level of greenhouse gas emissions. If the RET is to continue, and noting the recognition by the CCA in its discussion paper that the RET is not a least cost abatement mechanism, then AIGN desires to see the cost of the RET to trade-exposed industries reduced, noting the additional costs imposed upon industry at a time when the operating environment is particularly challenging.

Whilst acknowledging and welcoming a number of recommendations that have the potential to provide savings to industry, AIGN considers that the discussion paper has missed an opportunity to make recommendations that could enhance the competitive position of Australian industry. Indeed some recommendations, if implemented, will add to investment costs, particularly for potential new resource projects.

AIGN supports recommendations to make partial exemption certificates (PECs) tradeable and to allow large electricity users to manage their own liabilities if so desired. In designing the opt-in arrangements all relevant industry participants should be consulted including major users and electricity suppliers. The envisaged improved market efficiencies will not be achieved if the administrative arrangements and other regulatory requirements are impractical or too onerous.

AIGN also welcomes changing the frequency of scheduled reviews from every two years to four whilst maintaining the existing scope of the reviews.

The AIGN notes the discussion around the Small-scale Renewable Energy Scheme (SRES) and that many of the comments made support the long standing view of AIGN that the program is costly and inefficient and should be abolished. Despite a number of measures to constrain costs increases the AIGN understands that the 2013 estimations of the SRES liability have been



increased to about \$35 million certificates. If the SRES is to be maintained then opportunities to minimise its cost should be implemented. AIGN supports the recommendation to reduce the multiplier below one to manage the rising costs of the scheme due to its uncapped nature. The Minister should use his existing power to reduce the solar multiplier to 1 so providing an immediate saving, recognising that the CCA recommendations will take some time to implement. Alternatively the scheme should be capped.

Furthermore, given the RET compromises the least cost abatement principle, AIGN believes the cost burden on liable entities must be made as light as possible. Therefore AIGN does not support the continued exclusion of low carbon sources from the RET as was debated at the meeting of 5 November. This includes sustainably harvested native forest residues, industrial waste gases, heat and liquid transport fuels.

The following sections contain brief comments on those recommendations where AIGN disagrees with the conclusions reached by the CCA.

2020 RET Target

As was evident at the Sydney Roundtable the issue of the Large Scale Renewable Energy Target (LRET) target and the target trajectory are probably the most contentious issue within the Discussion paper and an issue that has been the subject of a number of modelling exercises with differing results. AIGN is aware that a number of our members are engaging further with the CCA in particular on the cost impost of the target.

We endorse the importance accorded by the CCA of policy stability and predictability in encouraging new renewable investment but note also the importance of focussing on areas of lowest cost abatement. The carbon pricing mechanism will determine these outcomes.

Where the CCA has made its decision on the LRET target on the basis that ‘the benefits of any changes at this time would be outweighed by the cost of increased regulatory uncertainty’ then we believe the actual extent of the costs of such claimed regulatory uncertainty should have been quantified where possible. This could have included looking at the structure of financing arrangements underpinning renewable energy investments and the nature of contracts between suppliers of renewable energy and the purchasers of the energy to see who bears the risk associated with any regulatory change.

Potentially, the reduction in demand for electricity within Australia will mean that the LRET and SRES targets will lead to 26% of Australia’s energy being renewable energy in 2020. It will result in industry incurring a higher cost than necessary in the form of a transfer to the renewable industry and we repeat our original preference for the target to be a real 20%.

Exemption of Self-Generators

AIGN’s original submission highlighted that the exemption from liability under the RET for self-generators is an important component of the RET. Given the nature of Australia, and in particular the location of many resource projects, there is little alternative but to generate its own energy. In addition there needs to be encouragement for the take-up of embedded generation for “grid connected” activities, that is cogeneration.

Exemption is granted under tight criteria including “that the self generators must produce the electricity and deliver it on transmission/distribution lines which operate solely for the purpose



of transferring electricity between these two points – exemption is limited to consumption within a 1 km radius.” Electricity cannot be sold to a third party.

The RET applies to grid-connected electricity networks and was never intended to include remote power generation given the difficulties of putting in place renewable power where the need is for a constant and reliable energy source. AIGN is aware of a number of mooted resource investments in remote locations where the project proponents will be seeking to make use of the exemption to lower overall project costs. This is at a time when a number of reports, including that by Jackson Port Partners for the Minerals Council of Australia, have highlighted how development and operational costs in Australia are increasingly out of alignment with world’s best practice. In launching the Energy White Paper on 8 November 2012, Minister Ferguson noted that there are \$230 billion of energy investment projects proposed but not yet committed; if these projects are to be secured, “...we must reduce the costs of production in Australia.” The addition of further operational cost, such as removing the exemption for new self-generators would in themselves not be major but when combined with other increased costs can only act to put Australia at a competitive disadvantage.

AIGN is, therefore, disappointed by comments from the CCA that there is no strong case for the exemption and that the exemption should be removed for new self-generators. Whilst noting the grandfathering of existing self-generators and recommendations for transitional arrangements for those in the process of installing self-generating facilities AIGN argues strongly that the exemption should continue to exist for new and existing self-generators.

From comments in the Discussion paper and at the Roundtable, it would appear that part of the justification put forward for the removal of the exemption relates to what the CCA perceives: is a lack of “historical rationale for the self-generation exemption.”

AIGN re-iterates that the EITE partial exemption provided for trade-exposed industries provides some compensation for some of the extra costs incurred by the RET. In contrast the self-generation exemption relates to the specific nature of these activities (generally associated with remote resource projects) where a project has little choice but to generate its own electricity. Such projects are not generally receiving PECs, except in a limited number of cases, (where an operation qualifies for both exemptions it will be due to the unique circumstances of its operations). The policy was designed for different scenarios.

In regard to the support for cogeneration under the exemption of liability under the self-generators provision AIGN is concerned that any changes to the provision could add significant costs to projects designed to improve energy efficiency and reduce emissions. Such investments are made at the company level on the basis of achieving lowest cost abatement and would recognize that for the company concerned that cogeneration is more energy efficient than using grid energy.

It would appear inequitable and perverse that a company making a least cost abatement investment would then be expected to also pay a subsidy to the cost of the RET scheme. Removal of the exemption in such circumstances would impose a “double cost” and act as a disincentive for further investment in such projects. All of which is at a time when Australian industry is under acute external pressure and needing to closely examine the cost effectiveness of all such investments.



For the reasons expressed above AIGN repeats its recommendation for the retention of the exemption of liability for existing and new self-generators.

Broadening the Self-Generator Exemption

AIGN also argues for removing the limitation that transmission/distribution lines must operate solely for the purpose of transferring electricity within the entity.

The exemption should be extended to include all self-generated electricity if the supply is incidental (i.e. exempting all self-generated electricity used by the end user) with only the proportion of electricity supplied to external parties constituting a relevant acquisition. The self-generator exemption should be applicable where the corporation that owns the electricity generated from a power station is a member of the same group as the corporation that owns the assets that make use of the electricity. The flexibility this provision would provide will be particularly important for future developments with a potentially larger onshore footprint, such as coal seam gas.

This would extend the self-generator exemption to a limited quantity of electricity generation where the business involved is incurring the costs of construction and, in many cases, achieving reduced emissions and increased energy supply. This provision should also be extended to Cogeneration Projects, noting the consistency with the COAG Discussion Paper of 9 October – “[the exemption] could be considered as supporting the development of self-generation, for which a substantial proportion uses more efficient cogeneration technologies and less greenhouse-intensive natural gas or renewables.”

Aligning Support for Emissions-Intensive Trade-Exposed Industries

AIGN notes the discussion by the CCA on aligning levels of assistance for EITEs under the JCP and the RET partial exemption program.

As noted in our original submission EITEs are eligible for a PEC in recognition of added costs from the RET and the inability to pass on those costs to customers. However the exemption only applies to the increase in the target above the original MRET target of 9.5 TWh and a REC price above \$40. Therefore the effective exemption is considerably smaller than the nominal figures of 90% and 60% - for example for aluminum smelting and steel making, the effective exemption is about 70% once the large-scale target reaches 41TWh.

Whilst we acknowledge the recommendation by the CCA that the level of EITE exemption under the RET should be examined by the Productivity Commission (as part of its review of the JCP) we believe that 2014-15 is too late a date. Given the costs incurred by significant industrial sectors due to a lack of alignment, the review should be conducted as soon as possible even if the CCA must conduct it.

We welcome recommendations that the Government should consider opportunities to align application processes and data requirements for the JCP and RET as closely as possible.

Please contact me if you have any questions.

Regards

Alex Gosman - CEO

