

Feedback on RET Review discussion paper

Feedback on general approach

I begin with general comments on aspects of the Authority's approach to the RET Review, which concern me in relation to both the outcome of this review and the outcome of future reviews.

Climate change mitigation

The discussion paper fails to acknowledge that Australia and the world urgently need to phase out fossil fuel burning to avoid dangerous climate change¹, as explained in my submission of 17 September. It is crucial that the Climate Change Authority understand climate change mitigation is not only of all-consuming importance, but also of pressing urgency. The recent Arctic sea ice melt is the latest sign that we may already be entering a period of dangerous climate change, with further impacts locked in and potentially large feedbacks looming.

Given this situation, the Climate Change Authority's main objective should be accelerating decarbonization of the Australian economy, which in the specific case of the RET Review means accelerating deployment of renewable energy. Instead the discussion paper lists its four main objectives as "increasing confidence and predictability", "providing flexibility and choice", "managing overall costs and delivering equity", and "streamlining administration and compliance costs" (p. ii). The first and third objectives, at least in the way the Authority is applying them, conflict with what should be the central goal of decarbonization.

Confidence and predictability

The Authority is misguided in its emphasis on minimizing policy uncertainty to maximize investor confidence, which has led the RET Review discussion paper to recommend minimal change. While I understand and agree to an extent with the reasons for this concern, I believe it is a flawed basis for this and future Climate Change Authority reviews. The reality is that climate policy will be subject to uncertainty for the foreseeable future, because it challenges powerful interests, so there is little point in trying to minimize policy uncertainty. Within this context, the best way to design climate policies is to send the strongest signal possible to incentivize investment in zero-carbon technologies, in this case renewable energy.

The main reason why policy changes in recent years have led to investor complaints about uncertainty is because most of those changes (eg. slashing of state feed-in tariffs) were inherently in the wrong direction, weakening support for renewable energy deployment. In contrast, increasing and strengthening the RET, far from creating uncertainty for investors, should actually increase confidence that the Government is serious about achieving the RET.

Even if the Authority continues to insist on a status quo approach to the RET Review, it must not take shy away from recommending policy changes in future reviews, especially

the review that will recommend emissions caps. The reason why there are regularly scheduled Climate Change Authority reviews is to provide regular opportunities to strengthen Australia's climate policies and thus accelerate decarbonization over time. This is necessary because the policies in place are completely inadequate to prevent dangerous climate change. There is little point in such reviews if the Authority is determined to recommend little or no change.

Compliance costs

While it is desirable that the Authority recommends policy change, the focus of the changes must be on strengthening policies to accelerate decarbonization, not weakening them to reduce alleged costs. If climate change is not adequately addressed, the resulting impacts are likely to outweigh all other attempts to make Australia and the world a richer and/or more equitable society. Therefore when designing climate policies, environmental effectiveness must be prioritized above all other considerations.

There is no need to contain the costs of the RET. Although reducing costs to electricity consumers is a noble intention, it must not be put ahead of decarbonizing the economy as rapidly as possible, as costs to electricity consumers will be minor compared to the avoided costs of climate change. As the discussion paper points out, decreasing the LRET "would have no significant impact on average household bills" (p. iv). The RET and other climate policies account for only a small proportion of electricity prices; the major factor driving up retail electricity prices is overinvestment in poles and wires.

Australia's role

So far the Authority seems to be more or less adhering to Ross Garnaut's paradigm on Australia's role in responding to climate change. Unfortunately, Garnaut's approach is fundamentally flawed. Garnaut argues Australia's role in the absence of a global agreement is merely to implement its (inadequate) emissions reduction target of 5% by 2020 at the lowest possible cost. He further argues the cheapest way of doing this is with a carbon price (including unlimited international offsets), and that with the carbon price in place the RET should become redundant over time.² The discussion paper seems to agree with Garnaut by saying "the RET is not a 'least cost' way of reducing greenhouse gas emissions and that if a carbon price remains in place and gradually rises over time, the RET would phase itself out, as certificate prices drop to zero" (p. 37).

Instead of following Garnaut's paradigm, the Climate Change Authority in this and future reviews should operate within the more pragmatic paradigm put forward by the Beyond Zero Emissions (BZE) report *Laggard to Leader*.³ This paradigm recognizes the reality that present national emissions targets do not remotely add up to a safe global objective, and UN climate negotiations have delayed a possible global agreement until 2020, when it will be too late to prevent dangerous climate change. While it may be that a global binding treaty is the ideal solution to climate change, radical unilateral action is needed to get a momentum for global action, so ambitious action by Australia should *not* be conditional on international action. Australia (and all willing countries) should use every lever at its disposal to accelerate climate action, including (though not limited to) cutting our domestic emissions to zero as rapidly as possible. In doing so, Australia should not

limit itself to least-cost mechanisms, but use a comprehensive range of complementary measures.

The Authority's choice of paradigms will become of vital importance in the review that will recommend emissions caps. I implore the Authority to reject Garnaut's misguided approach and familiarize itself with the *Laggard to Leader* approach.

For the RET Review, the main implication is that the Authority should not see its role as merely recommending the cheapest or most efficient way to implement Australia's existing targets, because those targets are utterly inadequate. Instead, the Authority should recommend increasing and strengthening the RET to accelerate renewable energy deployment as fast as possible.

Consultation

The Authority has completely ignored the large number of submissions calling for the RET to be increased and/or strengthened, including the combined 8,500 submissions in the GetUp! campaign to increase the 2020 target and the Hepburn Wind campaign for a post-2020 target. The submissions quoted in the discussion paper are almost universally from businesses and business lobby groups. This suggests the majority of the broader community want the RET increased, whereas it is mainly businesses who want the RET unchanged or weakened.

Feedback on specific conclusions and recommendations

Role of the RET

I commend the Authority for rejecting proposals to abolish the RET.

I am pleased the Authority recognizes the important role of the RET in reducing technology costs over time, complementing a carbon price with an uncertain future, and non-climate-related benefits (p. 32), rejecting claims that the RET is inefficient or has been made redundant. However, the Authority should also appreciate there are further reasons for the RET to exist which would not vanish even if uncertainty about the carbon price ended. These reasons include:

- Australia should not limit its role to implementing its inadequate existing emissions target, but use every means at its disposal to accelerate decarbonization.
- The RET makes it easier for Australia to set more ambitious emissions targets.
- The discussion paper notes the RET increases domestic emissions cuts (p. 31). This is a positive thing for two reasons.
 - Contrary to the Authority's statement that "consideration needs to be given to the impact on the cost of deploying renewable energy in Australia relative to the cost of emissions reductions overseas" (p. 33), the apparent cheapness of international offsets is misleading because offsets involve a high risk of spurious abatement.
 - All countries need to decarbonize their own economies (particularly developed countries like Australia, in line with the UNFCCC principle of common but differentiated responsibilities). Domestic action is

fundamental to decarbonizing the Australian economy, whereas international offsets hinder domestic decarbonization.

- The renewable energy investment driven by the RET should displace investment in fossil fuel generation that would have otherwise occurred. This helps to mitigate lock-in of continued fossil fuel use. In contrast, the \$23/tonne carbon price alone is too low to support renewable energy (and in any case is cancelled out by compensation which has actually increased the profitability of coal-fired generators⁴).
- The RET appears to be having more effect than the carbon price. The recent closure of ~2,000 MW of coal-fired generation is attributable to falling wholesale electricity prices driven by increasing penetration of renewable energy, along with falling electricity demand (to which solar PV has contributed).⁵
- It is appropriate to subsidize renewable energy. Fossil fuels are profitable today thanks to past subsidies from government, and continue to benefit from \$13 billion in federal subsidies.⁶
- Those countries least reliant on fossil fuels will be the most competitive in the future.
- The Productivity Commission's claim (cited by the discussion paper on p. 30) that carbon prices are more cost-effective than renewable energy subsidies is wrong. It is on the basis that carbon prices drive investment in gas-fired electricity generation⁷, which the International Energy Agency warns would divert investment away from renewable energy and lock in fossil fuel infrastructure for decades, leading to catastrophic global warming with all its associated costs.⁸ The analysis also relies on inaccurate estimates of the cost of emissions cuts from solar PV, estimates that have been debunked by the Productivity Commission itself in a report quietly released last December.⁹ In any case, contribution to long-term decarbonization should be prioritized over apparent short-term cost-effectiveness. Germany and the UK have achieved far more than Australia via policies the Productivity Commission deems expensive.¹⁰

These same reasons, where applicable, justify other complementary policies.

“1. The preliminary view of the Authority is that the frequency of scheduled scheme reviews be amended from every two years to every four years, so that the next review would be in 2016.”

I oppose this recommendation. Accelerating climate action cannot wait until 2016.

Instead, the present review frequency should be maintained, but the scope of future reviews should be narrowed to consider only changes that would strengthen the policy to accelerate deployment of renewable energy, ruling out changes that would weaken the policy to reduce costs.

The Large-scale Renewable Energy Target

“2. The preliminary view of the Authority is that the form of the target should continue to be expressed in legislation in terms of a fixed gigawatt hour level.”

I support this recommendation.

“3. The preliminary view of the Authority is that the existing large-scale renewable target of 41 000 GWh and interim targets should be maintained in their current form.”

I oppose this recommendation from the point of view that the 2020 target (and interim targets) should be increased.

Although the discussion paper mentions “the importance of climate change mitigation” as a reason put forward for increasing the LRET (p. 72), it then puts the “desire to maintain regulatory certainty” ahead of it (p. 74). This is inappropriate as the urgency of rapid decarbonization to prevent dangerous climate change means 20% by 2020 is far too low, a reality which cannot be simply brushed aside. The discussion paper suggests “it may be that the regulatory uncertainty created by increasing the target adversely affects the amount of renewable energy” (p. 76), but this is unlikely to be a problem if the increase is dramatically large.

Australia must transition to 100% renewable energy as soon as possible, and Beyond Zero Emissions have shown this can be achieved in as few as ten years.¹¹ The Authority should recommend a target for 100%, or close to 100%, renewable energy to be achieved by a relatively near date (eg. 2025). The trajectory toward that target must increase every year.

The Authority argues the Clean Energy Finance Corporation (CEFC) is not intended to increase the total amount of renewable energy. CEFC was part of a policy package negotiated by the Multi-Party Climate Change Committee, which included the Greens. The Greens have clearly expressed an intention that the RET would be increased to ensure CEFC delivers investment that would not have occurred otherwise.¹² However, regardless of the Authority’s judgment about CEFC, the most important reason to increase the LRET is the urgency of climate change mitigation.

The case for increasing the LRET is strengthened by several results of the SKM MMA modeling commissioned by the Authority. It is projected that in reference case 1:

- 5,113 MW of new gas-fired electricity generation will be built by 2030-31.
- Generation from fossil fuels (particularly black coal) will increase.
- Renewable energy deployment will effectively cease between 2020 and 2030, because the target stops rising after 2020.
- Electricity sector emissions will rise 9% by 2030.
- The LGC price is projected to approach the shortfall charge by 2020 (creating a risk that liable entities will simply pay the penalty), and then plummet toward zero (halting investment).
- The LGC price could rise to the shortfall charge if demand is lower than projected or the carbon price falls to zero (or is abolished by a Liberal government). One implication is that if aggressive energy efficiency measures are implemented (which would be a good thing in itself), it would have the perverse side-effect of preventing the achievement of the LRET, because demand would be lower than

projected and the LGC price will equal the shortfall charge. (This is also a reason to increase the shortfall charge.)

There are many more reasons to increase the LRET. These include but are not limited to:

- The reasons why the RET complements the carbon price are also reasons to increase it: to increase domestic abatement, to make it easier for Australia to set more ambitious emissions targets, to prevent lock-in of fossil fuel use, to reduce technology costs, and so on.
- The discussion paper notes the current pipeline of wind power projects is more than sufficient to meet the 2020 target (p. 48). This implies a higher target is needed to incentivize new projects.
- Similarly, according to the Australian Energy Market Operator (AEMO)¹³, as the policy currently stands, large-scale renewable energy deployment is being delayed by an oversupply of Renewable Energy Certificates and not expected to resume until 2016 (though this seems to contradict the SKM MMA modeling).
- On its present trajectory, the target is set to go backwards from 2013 to 2015, which makes no sense. The target should increase every year.
- As mentioned in the discussion paper (p. 28), Treasury modeling projects only 40-50% renewable energy by 2050. This outcome is not acceptable; Australia should be 100% renewable as soon as possible.

I commend the Authority for rejecting proposals to decrease the 2020 target because of revised demand projections. In supporting a possible outcome of 25% renewable energy by 2020, the Authority implicitly acknowledges that overachieving would be a good thing, that it is not the intent of the policy to limit renewable energy deployment. This seems inconsistent with the Authority's refusal to increase the 2020 target.

The discussion paper notes the possibility, raised by Alinta Energy, that the RET may lead to retirement of existing fossil fuel generators (p. 65). If this occurs then it is a good thing. New renewable energy *should* force existing fossil fuel generators out of the market, because it means decarbonization will proceed faster than otherwise.

“4. The preliminary view of the Authority is that the Renewable Energy Target Review in 2016 is an appropriate time to consider adjusting the targets beyond 2020 in light of the policy and economic conditions prevailing at that time.”

I oppose this recommendation. The Authority's intention to delay consideration of this matter until 2016 would seem to rule out any change to the 2020 target or interim targets. Not only the post-2020 targets, but also the 2020 target and interim targets, should be increased now.

The Small-scale Renewable Energy Scheme

“5. The preliminary view of the Authority is that the Small-scale Renewable Energy Scheme should remain separate to the Large-scale Renewable Energy Target.”

I support this recommendation. Aside from the issue of phantom certificates, which has been addressed by the separation of SRES from LRET, the rapid growth of the solar PV industry is a very good thing, exactly the sort of thing that needs to be encouraged.

“6. The Authority is continuing to consider whether the threshold for a small-scale solar PV system should be reduced below its current 100 kW limit to for example 10 kW.”

This may be a case where it is prudent to maintain the status quo for investor certainty.

“7. The preliminary view of the Authority is that the price cap remain fixed at \$40, to be reassessed once there is some experience of the scheme’s operation in the absence of the multiplier.”

I support this recommendation.

“8. The preliminary view of the Authority is that discounting (multipliers of less than one) of the number of certificates to be created in respect of each megawatt hour be provided to allow the Minister to control the cost of the SRES and ensure the subsidy level is appropriate.”

I oppose this recommendation. The main effect of this change would be to deliver yet another policy shock to the solar PV industry, at odds with the Authority’s stated goal of policy stability.

Contrary to the arguments of the Australian Industry Group¹⁴, there is no need to contain the costs of the SRES. If reducing the LRET would not significantly affect household bills, then the effect of introducing discounts into the SRES would be even smaller.

The Authority presents the phaseout of state feed-in tariffs as a good thing because it will contain the costs of the SRES (p. 88). Actually, it is a bad thing because it cripples the development of the solar industry.

Instead of allowing solar PV deployment to taper off or attempting to contain it, the government should design policies to further accelerate it. If it were not outside the scope of the Review, I would recommend the introduction of a federal feed-in tariff. The more small-scale renewable energy technologies are installed, the better. In addition to having zero greenhouse gas emissions, they remove demand from the grid and lower wholesale electricity prices.

I am pleased that the Authority has rejected proposals to cap the SRES because it would lead to boom-bust cycles.

“9. The preliminary view of the Authority is that a decision to apply or lower a discount factor should be applied in the following manner:

- **The Minister should consider whether to lower the discount factor at the time the small-scale technology percentage is set each year.**
- **The Minister’s decision should be based on, and proportional to, the following criteria: (i) any reduction in net system costs over the last year; (ii) electricity prices and whether the SRES contribution is greater than 1.5 per cent; and (iii) whether the average payback period of a small-scale system has fallen below ten years.**

- **In making the decision, the Minister must obtain and take into consideration independent data surveys regarding the above criteria. The survey results should be published.**

If the Minister decides to lower the discount factor, the Minister should provide reasons regarding the weighting of each element.”

I oppose this recommendation because I oppose recommendation 8.

Liability and exemption framework

“16. The preliminary view of the Authority is that the current settings for the shortfall charges should be maintained. However, the level of the shortfall charge should be reconsidered by the Authority as part of its 2016 review of RET targets beyond 2020, or earlier if circumstances warrant it.”

I oppose this recommendation. The shortfall charge should be designed as a penalty for non-compliance, not a price ceiling. It is important that there is a high penalty for non-compliance, to ensure the RET is achieved. Therefore the shortfall charge should rise with inflation. This change should be made now, to give investors confidence that the RET will continue to drive investment in the future.

“17. The preliminary view of the Authority is that the level of the emissions-intensive, trade-exposed exemption under the Renewable Energy Target should be considered by the Productivity Commission as part of its broader review of the carbon pricing mechanism Jobs and Competitiveness Program in 2014-15.”

There may be a risk that associating reviews of RET exemptions with reviews of free carbon permits could lead to a situation where the existence of one is used to justify the continuation of another.

Eligibility of renewable energy under the Renewable Energy Target

“22. The preliminary view of the Authority is that existing arrangements for waste coal mine gas should be maintained.”

I oppose this recommendation. Waste coal mine gas, including existing waste coal mine gas, should be made ineligible, in line with the statement in the *REE Act* that fossil fuels and fossil fuel waste products should not be eligible.

“23. The preliminary view of the Authority is that there should be no change to the *REE Act* to allow for new waste coal mine gas to be eligible.”

I support this recommendation.

“24. The preliminary view of the Authority is that without a clear process for ensuring that inclusion of wood waste from native forests would be ecologically sustainable that it should not be reintroduced to the RET.”

I support this recommendation.

“27. The preliminary view of the Authority is that existing arrangements for displacement technologies should be maintained.”

I support this recommendation.

“28. The preliminary view of the Authority is that no change should be made to the REE Act to allow additional displacement technologies.”

I agree that displacement technologies are better covered by an energy efficiency scheme, though in the absence of the latter those already eligible under the RET should continue to be so.

However, I disagree with the Authority’s assumption that the eligibility or otherwise of displacement technologies and low-emissions technologies is irrelevant to environmental effectiveness (p. 122). Allowing displacement technologies would be positive for environmental effectiveness, because it would reduce electricity demand. Allowing low-emissions technologies would negatively affect environmental effectiveness, because it would drive investment in technologies with non-zero emissions.

Diversity of renewable energy under the Renewable Energy Target

“29. The preliminary view of the Authority is that no change should be made to the Renewable Energy Target framework to promote diversity.”

There is a need to promote emerging renewable energy technologies. It is far from clear that CEFC funding will be sufficient to support emerging technologies (note the Liberal Party intends to abolish CEFC if it wins government).

Promoting specific technologies is not necessarily bad. As noted by the discussion paper (p. 133), the Solar Credits multiplier and SRES represent a precedent. A more diverse set of technologies could better complement each other (eg. flexible generation technologies complement inflexible ones), meaning more reliable electricity supply than if only the cheapest technologies are developed. Concentrated solar thermal is a promising technology in this regard, because it has the storage capacity to dispatch power continuously throughout the day and year. This meets the Authority’s criterion of a technology that enhances energy reliability (p. 135).

However, I understand that measures to promote diversity within the RET may be problematic. I agree that multipliers are problematic because they create large amounts of “phantom certificates”. I also agree there should be no technology caps. I would recommend the introduction of diversity-promoting policies that are additional to the RET, if it were not outside the scope of the Review. Working within the RET, perhaps the Government could establish an SRES-like Emerging Renewable Energy Scheme (ERES).

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