21 November 2014

Anthea Harris
Chief Executive Officer
Climate Change Authority

E: submissions@climatechangeauthority.gov.au

Dear Anthea,

Submission on Renewable Energy Target (RET) Review 2014

Origin Energy Limited (Origin) welcomes the opportunity to make a submission to the Climate Change Authority's 2014 Review of the Renewable Energy Target. As you are aware, we have previously made submissions to the Warburton RET Review 2014 and have provided you with copies of those submissions.

Origin recognises that climate change is a global challenge and unequivocally supports measures to progressively reduce carbon emissions. We continue our long term support of the RET as a key component of Australia's policy response to climate change concerns. We are a significant investor in low emissions and renewable energy technologies and have diverse global renewable energy interests in wind, geothermal, hydro and solar technologies - including an owned and contracted 805 MW Australian wind portfolio. This includes the recently commissioned 270 MW Snowtown II wind farm, for which Origin has the full off-take agreement for 15 years.

Key points

Origin has three key points to highlight:

1) **Our overall position on the RET** - we advocate for a more sustainable, balanced and cost effective policy setting which includes re-setting the target to a "true 20%", recognising significantly reduced demand and the cost burden on Australian homes and businesses.

2) **Accounting for small-scale solar systems** - at an absolute minimum, the re-setting of the target should explicitly recognise the significant contribution of small-scale solar systems which already contribute over 8 TWh per annum and are conservatively estimated to reach at least 13 TWh per annum in 2020.

3) **Improvements to the Small-scale Renewable Energy Scheme (SRES)** - the 2012 Climate Change Authority RET Review recommended a number of prudent changes to the SRES, aimed at containing the costs of the scheme. Origin supports these recommendations and believes they remain relevant. These recommendations included reducing the threshold for small-scale solar PV systems and lowering the price cap of certificates.

True 20% target

As articulated in our submissions to the Warburton RET Review 2014, Origin has advocated for a "True 20%" target.

Australia is well on the way to achieving a 20% renewable energy target, being at about 16% already. Even with an adjusted target of a true 20% by 2020 there will still be plenty of room for more investment in wind farms and solar technologies and for employment in those industries.

We estimate that this approach will require about a further 1,500 MW of wind generation and 3,000 MW of solar PV between now and 2020. In the longer term, the focus should then be on retiring highly emissions intensive coal-fired generation to make room for increasing levels of low emissions and renewable generation in the period beyond 2020.

Origin continues to support the RET and any changes to the scheme must be cognisant of projects which are under construction or have been committed. Origin would not support terminating the scheme as such a change would be poor public policy which would strand investment that has been made in good faith and would set a dangerous precedent.

Accounting for Solar PV

At a minimum, the Large-scale Renewable Energy Target (LRET) should be adjusted for the significant contribution of solar PV and solar hot water, which is well above the nominal 4 TWh that was allocated to the SRES. This should be non-controversial.

The 2012 CCA Review estimated that small scale systems would contribute about 11 TWh by 2020. The 2014 Warburton review has estimated that this contribution is already over 8 TWh in 2014 and expected to reach approximately 13 TWh by 2020. However, this makes only modest assumptions about the growth in solar PV systems in the commercial sector - an area with significant growth prospects as new leasing models are rolled out.

Improvements to the SRES

Origin's view is that solar PV will continue to be a popular choice with consumers, even without generous subsidies.

The cost of solar PV panels has fallen significantly over the past few years - to the point that they are becoming cost competitive when compared to retail electricity prices, and in particular peak daytime electricity prices, which have increased significantly in the same period. The average size of solar PV installations has also increased significantly, and is now about 4 kW. The trend towards larger systems further mitigates the need for up-front subsidies as it shows that customers are looking for larger, longer term systems as a potential hedge against electricity prices.

The 2012 CCA RET Review recommended a number of prudent changes to the SRES, aimed at containing the costs of the scheme. Origin supports these recommendations and believes they remain relevant.

In summary, these recommendations included:

- Reducing the threshold for small-scale solar PV systems from 100 kW to say 10 kW, with larger systems moving into the LRET with reduced deeming periods (R.6)
- Deeming periods being used to phase out the scheme (R.8)
- Lowering the price cap, which the Minster already has the power to do by regulation (R.7)

Other issues - trade exposed industry, sovereign risk

Effective assistance for LNG

LNG qualifies in the moderate (60% headline assistance) category for compensation for RET related costs. However, because the benchmark for electricity use is based on currently operating projects which are all offshore and use little to no electricity, the baseline is largely irrelevant for the CSG LNG industry, which receives little to no assistance, despite being in the "60%" category. Origin supports effective assistance for the LNG industry for RET-related electricity costs, including an appropriate definition of electricity use.

Sovereign risk

Origin remains concerned that some of the claims made about perceived "sovereign risk" are potentially misleading.

As we have previously stated, the contracts (called power purchase agreements "PPAs") that generally underpin an investment in large scale project such as wind farms are usually structured so that it is the purchaser of the energy (usually an electricity retailer) who bears the majority of risks associated with regulatory change. If the scheme was to change materially, the wind farm operator would still be paid the same stream of income through the bundled price provided by the power purchase agreement. For the minority of wind farms that have decided to act as a merchant generator (without a PPA) then they have made an informed decision to assume that risk.

If the scheme was to be altered, we suggest that there are suitable transitionary means to mitigate any perceptions of sovereign risk. This would include ensuring that existing investors are protected for past investments made in good faith.

If you have any questions regarding this submission please contact Matthew Kaspura (Manager Carbon Policy) on (02) 8345 5287.

Yours sincerely,

Phil Craig
Executive General Manager Corporate Affairs
Origin Energy Limited
GPO Box 5376
Sydney NSW 2001
+61 3 8665 7729 - Phil.Craig@originenergy.com.au