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5 December 2014

Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

By email: submissions@climatechangeauthority.gov.au

Dear Sir/Madam,

AGL Energy submission to the Climate Change Authority RET Review

AGL Energy (**AGL**) welcomes the opportunity to provide input into **Climate Change Authority RET Review (the Review)**.

AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia. AGL is also a significant retailer of energy with over 3 million electricity and gas customers. The diversity of this portfolio has allowed AGL to develop a detailed understanding of the risks, challenges and opportunities presented by renewable energy, and the challenges associated with the need to appropriately address and balance the environmental, social and economic impact of our operating activities.

AGL has been a strong supporter of the renewable energy, and over the past 7 years has invested over $3 billion dollars across a range of utility scale renewable generation assets including hydro, wind and solar.

AGL commends the Authority on its review, utilising the opportunity to analyse subsequent material that has emerged in recent months whilst making use of the extensive information generated in previous reviews.

In submissions to these reviews AGL highlighted two core messages:

- AGL believes that there is a material risk that the Large Scale Renewable Energy Target (LRET) cannot be achieved. A convergence of factors is making future investment in renewable energy intractable.
- Household solar PV now no longer requires subsidies to be an attractive proposition for households. Furthermore, the level of electricity generation from small scale solar is approaching or slightly exceeding 4 TWh, which was the original policy intent.

Earlier this year, AGL recommended the closure of the SRES scheme and the winding up of the LRET scheme in its current form (absent appropriately designed complementary policy to resolve the intractability of investment highlighted above). It was further recommended to revisit policy designed to incentivise renewable energy taking into consideration the interactions and implications of other policy challenges and objectives including emission reduction, generation oversupply and declining demand.

AGL economists have recently articulated key considerations resulting in barriers to exit for existing thermal plant.[1] This is a critical challenge facing industry and government requiring consideration. The recent public debate related to the RET fundamentally ignores the systemic nature of this issue and the requirement to address it as a cornerstone of any RET policy adjustment. Without policy measures that address the issues of oversupply and barriers to exit for existing generation (regardless of their form) new investment is unlikely to be forthcoming.

As an independent body, the Authority is well placed to provide an objective assessment of the challenges facing the RET in the current environment. Equally it can assess the ability of the RET to be effective when considering the long term objective of reducing emissions from the electricity generation sector. Given this objective, we encourage the Authority to explicitly consider the impact of electricity generation oversupply on new renewable investment in its recommendations. It is a core policy challenge best addressed by organisations such as the Authority with the mandate and skill sets to look beyond immediate and short term considerations in the long term context of emission reductions.

Component parts of the electricity industry cannot be assessed, nor can their issues be solved, in isolation. Therefore the choices facing policy makers remain simple. Either the RET more generally and the LRET specifically, require a substantial revision to improve the ability to remain relevant to investors, or, the environment within which it operates must be adjusted through complementary policy to achieve the same overall outcome.

AGL maintains the permanent withdrawal of existing thermal (aged and emission intensive) plant is likely to be required to facilitate new investment in renewable energy. AGL noted in its recent Working Paper that this withdrawal can, in essence take three forms, regulatory, market based or government funded. In the current operating environment it is likely that pragmatic and rational assessments would seek to consider elements of all three as the most immediately pragmatic manner to provide systemic and enduring reform.

Australia’s electricity supply system is undergoing a transformation. The RET more broadly, and the LRET specifically, must be reviewed in the context of this transformation, the Authority is well placed to do this and provide pragmatic advice to policy makers.

Should you have any questions in relation to this submission, please contact me on (02) 9921 2516 or tanelson@agl.com.au or Cameron Reid at creid@agl.com.au or on (03) 8633 72101.

Yours sincerely,

Tim Nelson
Head of Economic Policy and Sustainability

[1] Nelson, Reid & Mc Neil; Working Paper No.43 - Energy-only markets and renewable energy targets: complementary policy or policy collision? Available at http://aglblog.com.au/wp-content/uploads/2014/08/No-43-energy-only-and-renewable-targets-FINAL.pdf