14 November 2012

Anthea Harris
Chief Executive Officer
Climate Change Authority
GPO Box 1994
Melbourne VIC 3001

By email: submissions@climatechangeauthority.gov.au

Dear Ms Harris,

Renewable Energy Target Review, Discussion Paper

Alinta Energy welcomes the opportunity to make a submission in response to the Renewable Energy Target Review, discussion paper, and the draft recommendation contained therein.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and approximately 700,000 retail energy customers in Western Australia, Queensland, New South Wales, South Australia and Victoria. Alinta Energy operations are directly impacted by the Renewable Energy Target (RET) including administrative aspects of the scheme.

Alinta Energy acknowledges that the RET's settings are of critical importance to ensuring an appropriate balance between renewable energy objectives and overall economic well-being.

While the Authority has provided a detailed analysis the recommendations the Authority is minded to make do not account for the real cost of living pressures being faced by Australian households in part arising from the RET. While aspects of this issue sit outside the Authority's mandate it is important that opportunities for further review remain in place to address any unintended or disproportionate outcomes that may arise.

Role of the Renewable Energy Target

Alinta Energy, in its submission to the issues paper, noted that existing investment and committed projects should not be penalised by any reform of the RET. This is the case as businesses and investors have acted in good faith on the basis of policy commitments.

Nevertheless, Alinta Energy does not believe this limits the ability of the Authority to make recommendations that change the nature of the RET going forward. While it should not prescribe changes that would have retrospective implications by penalising existing renewable investments, arguments around policy certainty for investments that have not yet been made have less validity given the cost of living implications and other negative impacts arising from the RET.

In Alinta Energy's view, it seems entirely conflicted to suggest that policy certainty is needed to support future renewable entry that has not yet, and need not occur, whilst failing to measure the costs that the introduction of the RET has had on existing non-renewables investments. Existing non-renewable investments were also made in good faith at a time when the RET was not conceived and thus the disproportionate impact of the RET on those assets should not be downplayed.

For instance, AGL's "premium penalty" argument fails to account for the additional refinancing and operating costs already imposed on non-renewable generation as the RET continues to undermine the wholesale market. A dilution of the RET's impact would likely have a net positive financial impact on these assets.

As such, given these impacts and the high cost of abatement, and the likely overshoot of renewable generation under the LRET and the SRES, the Authority would have been justified in proposing a number of measured ‘no regrets’ amendments to the RET.

As it stands, the impact on wholesale prices needed to underpin all generation assets, retail prices paid by households and on transmission costs, and needs to be consistently monitored. The RET has the potential to sink a large amount of funds in less efficient renewable generation and stranded transmission assets that cannot easily be reversed, creates a concentrated reliance on one form of technology which continues to engage in the wholesale electricity market in a sub-optimal manner, and reduces, not enhances, system security.

Arguments around employment benefits and competition benefits fail to recognise that the cost of renewable energy subsidies can only ever have a net negative impact upon consumer welfare as expenditure that would otherwise be directed to acquiring other scarce goods and services are appropriate through the RET which as noted by the Authority acts like a tax on electricity consumption.

Certainly, there are environmental goals associated with the RET target which have been endorsed by the Government; however, even those policy aims have come under increased scrutiny and thus require consistent monitoring.

Alinta Energy believes it is unlikely to be the case that the RET will not undergo further amendment between now and 2020, and it is apparent that investors will tailor decisions to account for a range of potential outcomes.

As such, Alinta Energy does not endorse the Authority’s preliminary view that scheduled reviews take place every four years instead of the previously determined two years. Further, the Authority has failed to consider the validity of two-yearly reviews and that given the nature of the RET regular reviews provide consumers with an assurance the policy will be appropriately managed.

Alinta Energy’s position is that the frequency of scheduled reviews should be maintained at every two years as originally proposed.

Large-scale Renewable Energy Target (LRET)

Alinta Energy supports the use of a fixed gigawatt hour target for the RET but is disappointed by the Authority support for the existing 41,000 gigawatt hour target.

The Authority has noted perceptions of regulatory risk in concluding no change to the LRET. This is despite the growing level of concern about cost of living pressures and the analysis of industry and the Authority which shows the RET will overshoot its 20 per cent target.

This is an unusual decision. It is accepted that the RET creates additional cost of living pressures for consumers and those costs are likely to be in excess of what was originally expected by the community at the commencement of the RET. It is also clear the RET creates a number of challenges for non-renewable generators. Failure to address these challenges as they arise can only increase the potential for loss of political and social license for the RET.

Alinta Energy does not agree that reaffirming Government support for the existing RET will deal with the current uncertainty and supports the targets revision to a real 20 per cent of generation. Alinta Energy remains firmly of the view that escalating concern about the RET will continue to undermine investor confidence and hence the best way to address this concern is through a measured reduction to match current demand forecasts.

In this way existing investors, of renewable and non-renewable will be provided with appropriate certainty, whilst future investments will be measured against an appropriate cost-benefit threshold.

Can the LRET be met?
Alinta Energy notes the Authority's view that the RET can be met if only a proportion of the publicly announced wind projects are commenced. Alinta Energy also notes the comments of the Clean Energy Council and a number of wind-oriented businesses. While informative, these views are inconclusive and the industry's ability to build the proposed generation and infrastructure to support the RET remains unresolved. Especially in an environment where the current RET remains divisive.

Impact on wholesale prices
The importance of certainty is often discussed in the context of energy given the strength of ongoing policy debates. Alinta Energy believes certainty is critical, but never fully guaranteed; however, when it comes to the National Electricity Market the most important area in which certainty is required is: an efficient pricing mechanism.

There is a view that subsidised wind generation provides the benefits of low wholesale costs, often referred to as the "merit order effect". The Authority refers to this in the discussion paper. In Alinta Energy's view the RET works to undermine the market pricing mechanism in a number of ways as indicated in its submission to the issues paper.

Alinta Energy notes the costs modelled by the Authority match previous analyses of the RET which demonstrate it comes at a significant cost to consumers and industry. As an aside, Alinta Energy understands that the abatement costs indicated in the Authority's analysis is lower than would otherwise be the case if SKM had discounted emissions consistent with the methodology used in other robust analyses of the future costs of the RET. The reason for the Authority's use of an alternative approach should be clarified.

Diversity of location
Alinta Energy is surprised the issue of geographic dispersion of renewables was not pursued as the clear imbalance towards wind in South Australia remains a growing concern. The RET encourages pool and spot prices in that region that do not support new entrants and minimise competition.

Small scale Renewable Energy Scheme (SRES)

Alinta Energy had believed the case for change under the SRES was clear especially in light of potential cost blowouts. The change to the clearing house is a positive change supported by Alinta Energy; however, further change is warranted.

Alinta Energy notes the Authority's view that the SRES remain separate to the LRET and does not oppose this position as it is not the primary concern. The concern is the uncapped nature of the SRES and the growing costs associated with the SRES.

In recent weeks the Clean Energy Regulator has increased the small-scale technology percentage which has a direct impact on the amount that households will pay and the installation of renewables under the SRES is not expected to be curtailed in the forward period. It remains unclear why this approach to setting the small-scale technology percentage, including its variability, is appropriate given the potential additional costs to consumers. Nevertheless, the recommendation to set the percentage in advance of a compliance year is appropriate in the context of existing arrangements.

On this basis, Alinta Energy encourages the Authority to turn consideration of a lower threshold into a firm recommendation and shorten the deeming period.

Similarly, Alinta Energy would prefer the Authority make firm recommendations to the Minister for changes that can be implemented now to curtail costs to consumers arising from the SRES as opposed to developing 'triggers' for potential action. Further, the proposal for yearly reviews of discount factors is in stark contrast to the Authority's overall position on reviews and uncertainty to industry. In fact, it illustrates Alinta Energy's view that a lack of clarity around the cost of the scheme requires the existing two yearly reviews not less frequent reviews.

Liability and exemption framework

Standby plant
Alinta Energy has previously approached the Clean Energy Regulator regarding the impact on isolated generation of the 100MW grid test for 'relevant acquisitions', due to the effect of sections 31 and 33 of the Act and regulations 21 and 22 of, and the definition of "standby plant" in, the *Renewable Energy (Electricity) Regulations 2001*. This matter is set out in detail in the Alinta Energy submission to the issues paper but the definition of standby plant is not the subject of a specific recommendation.

Concerning the application of the 100MW grid test and the classification of plant as standby plant, Alinta Energy encourages the Authority to recommend the removal of the 3-year operating history test and inclusion of a test of fact based on actual generation in the given year to determine whether a generation facility meets the definition of standby plant for the purposes of assessing the capacity of a grid at 100MW or inclusion of an express 'change of circumstances' provision to apply where generation plant is disconnected from a 100MW grid. This will resolve the problem for new plant and for existing plant connecting to a new grid.

Customer opt-in
Alinta Energy agrees with the Authority that the potential benefits of opt-in arrangements may outweigh the costs if appropriately designed. On this basis, it is appropriate that this issue be further considered before being adopted or dismissed.

One issue that requires consideration is where a large user opts-in but is unable, for whatever reason, to manage their liability (i.e. bankruptcy or otherwise). Alinta Energy believes that it would not be appropriate for liabilities from failed opt-in decisions to fall back to associated retailers even where a customer fails to meet their identified liability. Such a situation would be unmanageable or would involve additional costs that would need to be met indirectly by the customer or customers. Therefore, it is appropriate that large users that opt-in to the framework bear the risk of the decision to opt-in.

Alinta Energy proposes that where a large customer decides to opt-in to the liability framework that appropriate steps are taken to mitigate the risk of not meeting liabilities. This may include the requirement for collateral, in the form of guarantees or similar, and/or alternative payment arrangements.

Partial exemption certificates
Alinta Energy supports the view that partial exemption certificates should be tradeable and made usable by any liable entity. This is a positive change that increases flexibility and efficiency.

Conclusion
Alinta Energy welcomes the Authority's analysis and encourages further consideration of the matters enunciated above. Should you have any queries in relation to the Alinta Energy submission, or wish to discuss these matters more generally, please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely,

Jamie Lowe
Manager, Market Regulation