14 November 2012

Submissions
Climate Change Authority
GPO Box 1944
Melbourne VIC 3001

By email: submissions@climatechangeauthority.gov.au

Dear Sir/Madam

**RE: Renewable Energy Target Review Discussion Paper**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide a submission to the Renewable Energy Target Review Discussion Paper (the Discussion Paper). These comments are in addition to those contained in our recent submission to the Renewable Energy Target Review Issues Paper.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the National Electricity Market and are the first point of contact for end use customers of both electricity and gas. The ERAA refers the Climate Change Authority (CCA) to the individual submissions of our members for their views on more specific issues, and strongly recommends that the CCA has due regard to their input.

The ERAA supports the development of renewable energy in Australia, and believes that the Renewable Energy Target (RET) is an appropriate policy to achieve this objective. The ERAA supports nationally consistent policies as they offer many benefits to industry and consumers. These include reduced risks of non-compliance, reduced compliance and administrative costs, stronger retail energy market competition and reduced barriers to entry.

**Retail price regulation**

Retail price regulation is inefficient; it stifles product innovation, impedes price and service levels, and prevents the full range of benefits of competition from being realised. Competition offers the best form of protection to consumers, not setting retail price caps. There is a risk that setting inaccurate tariffs could be detrimental to both energy retailers and consumers. If prices are set too high, consumers could pay too much for electricity, although competition from market contracts could mitigate this risk. If prices are set too low, retailers will be unable to recover costs and may discontinue operating in the market.

State and Territory regulators around the country have indicated that as the energy industry transitions to a low-carbon future, setting cost-reflective (as they are required under their terms of reference) regulated retail tariffs is becoming increasingly difficult. As the cost of the RET is passed through to consumers, it is essential that regulators ensure tariffs accurately reflect the costs of purchasing certificates as well as the cost of retailers' compliance. Recent changes to price setting methodologies in some states may have placed the ability of retailers to pass through these costs to consumers at risk. If this has occurred, there is a risk that investment in renewable technologies will decrease as a result.

**Small-scale Renewable Energy Scheme**

In the interests of ensuring a competitive RET Scheme that delivers least-cost renewable energy, the ERAA believes that there can be improved coordination of renewable energy policies. For example, the interaction between Federal and State Government incentives for small-scale solar has contributed significantly to the increase in electricity prices. As not all consumers can access small-scale solar incentives, and yet costs are paid by all, the inequality and cross subsidies associated with these policies should be questioned. In considering the future of the Small-scale Renewable Energy Scheme the impact of combined Federal and State incentives should be considered. The ERAA does not favour premium feed-in tariffs (FiTs) and has made this clear to State Governments. The ERAA holds the view that a competitive retail market is unlikely to require mandated FiTs. Furthermore, the following principles must be taken into consideration when deciding on the most appropriate FiT:

1. FiTs should be designed to minimise administrative costs. Customers who benefit from FiTs are usually managed in addition to retailer standardised operating procedures. These include additional resource requirements to manage connections, contracts and customer service.
2. Neutrality is essential for any effective policy on FiTs. Without such neutrality setting the FiT policy will hinder effective competition.
3. A national FiT would be more efficient than various state based schemes, as it provides for a streamlining of processes that could translate in better outcome for end use customers.
4. All FiTs should be a long-term sustainable measure, not short-term incentive driven schemes to encourage investment that changes sporadically due to change in economic circumstances. This will promote consumer and industry confidence in ensuring longevity and effectiveness.
5. Any FiT should be net metered.

The ERAA welcomes the recent changes made by the NSW, Queensland and Victorian Governments that aim to remove inequitable cross-subsidies to new applicants.

**Liability and exemption framework**

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| 12. The preliminary view of the Authority is that large electricity consumers should be able to opt in to assume direct liability for Renewable Energy Target obligations. The Authority will consult further with participants and the Clean Energy Regulator on a workable model for opt-in arrangements. |

The ERAA provides conditional support to the Authority's preliminary view that large electricity customers have the ability to assume direct liability for RET obligations. This support is conditional that as large customers opt in to assume this liability the RET obligation that must be met by industry participants (such as retailers) is reduced proportionately.

14. The preliminary view of the Authority is that the renewable power percentage and small-scale technology percentage should be required to be set prior to a compliance year, and preferably by 1 December of the preceding year.

The ERAA agrees that the renewable power percentage and small-scale technology percentage should be required to be set prior to a compliance year. We welcome the proposal for this to be set by 1 December of the preceding compliance year. Providing reduction rates prior to the start of the liability year would provide greater certainty for retailers and increase their ability to more accurately predict pricing impacts that will apply from the start of the compliance year, minimising the need for any further adjustments throughout the year.

**GreenPower**

Like the RET, the National GreenPower Accreditation Program (GreenPower) seeks to reduce greenhouse gas emissions and encourage investment in renewable energy products. Customers may purchase accredited GreenPower voluntarily to support the production of electricity above and beyond the mandatory targets under the RET. This means retailers are unable to use renewable energy for GreenPower sales to meet their RET obligations. This can reduce the incentive for retailers to encourage customers to take up GreenPower. There is a need to provide a certain future for the GreenPower program so that voluntary renewable energy purchases are encouraged. The ERAA is currently involved in the GreenPower Program Review, which will be considering the relationship between the RET and GreenPower.

Should you wish to discuss the details of this submission further, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely

Cameron O'Reilly
Chief Executive Officer
**Energy Retailers Association of Australia**