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CLEAN ENERGY COUNCIL

8 December 2014

Climate Change Authority,
GPO Box 1944,
Melbourne VIC 3001

submissions@climatechangeauthority.gov.au

Dear Ms Harris,

CEC Submission to 2014 RET Review

The Clean Energy Council (CEC) welcomes the opportunity to provide a submission to the Climate Change Authority's (CCA's) review of the Renewable Energy Target (RET).

This review is running concurrently with the government's own review, which commenced in early 2014 and was informed by the work of a panel chaired by Dick Warburton (the Warburton Review). The RET has therefore already been under review for most of this year. This has resulted in an investment freeze, with very few new projects going ahead this year. This is highlighted by analysis from Bloomberg New Energy Finance (BNEF) that showed investment in large-scale renewable energy this year to date is just $238 million, compared to $2 billion across 2013.

This situation is putting immense strain on the renewable energy industry and we are already seeing the impacts across the sector. A number of businesses in the solar sector have recently announced that they are closing down or exiting the Australian market. Keppel Prince Engineering, which locally manufactures wind towers for wind farms using Australian steel in Victoria, announced in October it would lay off 100 staff as orders had dried up. This is just a taste of what is to come if a level of certainty isn't returned to the policy.

Given this will be the third review of the RET in two years, we urge the CCA to finalise this review as soon as possible.

Attached with this submission is the CEC's input to the Warburton Review and a number of detailed briefing papers we have published covering a range of relevent issues. We believe that these papers will give the CCA a thorough understanding of the industry's position on the main issues related to the RET.

In addition we would like to highlight three areas that we think are particularly pertinent to the current review. These are:

- The current generation surplus
- The achievability of the 41,000 GWh by 2020 Large-scale Renewable Energy Target (LRET)
- Proposed changes to the Small-scale Renewable Energy Scheme (SRES) threshold

The current generation surplus

Australia's stationary energy industry is in transition. More than a decade of energy policy has delivered new renewable energy generation at a time of unprecedented reduction in demand for electricity. Australia can now move toward the second phase of this transition and the closure of Australia's most marginal and old electricity generation.

However, recent energy and climate policy uncertainty combined with barriers to exit for Australia's ageing coal fired power fleet has resulted in these assets continuing to operate beyond their operational life, resulting in surplus capacity that is stifling signals for new investment in the energy supply sector.

A smooth transition to a low-carbon future for Australia's electricity sector requires that clean energy generation must be in place before the most inefficient and polluting generation can be phased out. This is not a new concept: one of the primary objectives of the National Electricity Market is to ensure supply in excess of demand to limit the chance of rationing and blackouts. Moreover, the express purpose of the RET, legislated in 2000 and again in 2009, was to encourage the introduction of new renewable energy technologies to transform Australia's energy generation into one less reliant on fossil fuels. Unfortunately, substantial energy policy uncertainty and barriers to exit (both real and perceived) have meant the permanent closure of Australia's oldest and most greenhouse-intensive power stations has not yet occurred as many had previously expected.

On the positive side, the surplus generation resulting from this scenario is providing lower wholesale prices which are benefiting electricity consumers. However, the level of generation reserves in the market are now high, and against this background, some stakeholders have called for the RET to be cut or removed.

While a solution to the current challenges in electricity markets is inherently complex, it is clear that reducing the deployment of renewable energy is not the answer and instead would have a number of unfortunate effects. It would:

- Stall and reverse the long-term policy intent to transform the Australian energy sector.
- Negatively impact the renewable energy industry and the billions of dollars of investment and over 21,000 jobs currently in the sector.
- Result in higher power prices for consumers, as wholesale prices would increase by a greater amount than any savings on reduced costs of renewable energy certificates.
- Act against the long-term need to reduce carbon emissions in the electricity generation sector – ultimately requiring greater action through other policies.
- Be contrary to the views of the Australian public, the overwhelming majority of whom want to see more renewable energy, not less.

The CECs briefing paper **'Australia's Power Generation Sector at the Crossroads'** attached with this submission explores these issues in more detail.

The achievability of the 41,000 GWh by 2020 LRET

A key issue in the government's current deliberations about the future design of the RET is whether or not the capacity needed to meet the 41,000 GWh LRET can be built by 2020. The CEC's view is that the biggest barrier to delivering the target is the ongoing policy uncertainty, and that the renewable energy industry is confident that the target can be met with a clear and strong policy in place.

The CEC's briefing paper **'Practical, Social and Financial Considerations for meeting the 2020 Renewable Energy Target'** (attached to this submission) explores the issue of LRET deliverability in more detail. The paper highlights that:

- Modelling undertaken by ACIL Allen for the Warburton Review showed that the 2020 target of 41,000 GWh can be achieved. This is supported by modelling by ROAM Consulting that followed detailed consultation with the renewable energy industry and its supply chain.
- The renewable energy industry has a well-established track record of delivering on targets, with higher levels of deployment, in shorter time frames and at lower cost than many analysts and decision makers have predicted.
- A strong and stable RET with bipartisan support will cement the obligations for new renewable energy investment necessary to deliver the legislated targets.
- The current surplus of Large-scale Generation Certificates (LGCs) allows some flexibility and time to ramp up investment necessary to deliver the currently legislated target.
- The current surplus of electricity generation capacity is resulting in lower wholesale electricity prices (and lower power bills for consumers). However, new renewable energy projects are commercially viable when this wholesale energy price is combined with LGC prices that are below the tax-effective penalty price of the LRET.
- The cost of renewable energy technology is expected to continue to fall, as forecast by the federal Bureau of Resource and Energy Economics.
- There is a significant pipeline of approved projects capable of delivering the 41,000 GWh target in line with the legislated trajectory as soon as policy certainty is restored.

Changes to the Small-scale Renewable Energy Scheme (SRES) threshold

The CCA's RET review in 2012 and the 2014 Warburton Review both recommended reducing the SRES threshold from 100 kW to 10 kW. The government stated this year that it will not change support for household solar, but has not explicitly committed to retaining the SRES, which indicates that the debate about reducing the SRES threshold is still live.

The CEC does not support any changes to the SRES including a reduction in the current SRES threshold.

About 80 per cent of solar PV systems purchased by small businesses are in the 10 kW to 100 kW range. If the threshold for the SRES is reduced from 100 kW to 10 kW, small businesses would be required to create LGCs. This would represent a significant additional cost and red tape burden for small businesses that want to use solar to reduce their electricity bills.

Reducing the SRES/LGC threshold would also represent a potentially significant reduction to the LRET.

The CEC briefing paper **'Changes to SRES threshold: Cost and red tape burden on small businesses'** attached with this submission outlines this position in more detail.

Please also find attached the CEC briefing paper **'Why the Small-scale Renewable Energy Scheme should be retained'.** This paper outlines the industry's views on the importance of SRES continuing un-changed.

We would welcome the opportunity to discuss these, or any other issues related to the RET review, with you in more detail.

Yours sincerely

Kane Thornton
Chief Executive