

18 September 2012

Sophie Dunstone
Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100, Parliament House
Canberra ACT 2600, Australia

By email: electricityprices.sen@aph.gov.au

Dear Sophie

Pacific Hydro Submission to the Senate Select Committee on Electricity Prices

Pacific Hydro is pleased to have the opportunity to provide comments regarding the Senate Select Committee on Electricity Prices.

Pacific Hydro is a leading Australian renewable energy company with over 20 years' experience in project finance, development, construction and operation of hydro, wind, solar and geothermal power projects in Australia, Brazil and Chile.

Pacific Hydro is a wholly owned subsidiary of the Industry Funds Management (IFM) Australian Infrastructure Fund through which Pacific Hydro provides sustainable infrastructure investment opportunities for around 5 million Australian superannuants. We are proud to continue to provide strong returns for the environment, local communities and investors.

The Renewable Energy Target

Our comments to the Senate Select Committee (the Committee) primarily revolve around the cost impacts of the Large Scale Renewable Energy Target (LRET).

The expansion of the RET to 45,000 GWh in 2020 has bipartisan support and provides the framework to enable investors and developers to deliver projects that have created significant regional employment and provides critical ongoing revenue to farmers and the communities in which they are involved.

The RET has played, and will continue to play, a key role in delivering on the stated policy of the Coalition and the Government to cut Australia's emissions by 5% by 2020.

The RET is a market mechanism and is intended to accelerate the deployment of renewables into the energy system so as to enable an orderly transition to a low carbon energy supply. This approach has bipartisan support in Australia and is similar to the approach taken by literally hundreds of national and provincial governments around the world.

In 2010 the RET was split into small scale (SRES) and large scale (LRET) segments, once again with bipartisan support.

The Committee would no doubt be aware that a review of the RET has commenced and that some have called for significant alterations of the legislation. We would note that it is the continued interventions in this policy over recent years that has caused price volatility and increased risk for investors, particularly in the deployment of large scale renewable energy.

If the LRET is to deliver the least cost renewable energy, and therefore minimise price impacts on consumers, then legislators should resist the calls to once again create an environment of risk and uncertainty by constant change.

As noted in a recent research paper from AGL, abandoning the RET could increase electricity costs by between \$51 million and \$119 million (even after accounting for avoided renewable costs) primarily because of increased risk and policy uncertainty that would be created.

Technology Costs

As noted in the recent Bureau of Resources and Energy Economics report Australian Energy Technology Assessment, onshore wind energy will be the most competitive in comparison to 39 other generation technologies including combined and open cycle gas, advanced coal and supercritical coal, and solar thermal in 2020.

By 2030 onshore wind and solar PV will be the cheapest forms of energy available.

This is not a pipe dream but a trend. These technologies are advancing down their cost-curves because governments have prudently identified that to ensure energy supply and lower carbon emissions requires accelerating renewable energy deployment.

RET and Energy Prices

There is an ongoing debate regarding the cause of escalating energy bills. Much of this debate has centred on the impact of the carbon price and other green schemes such as LRET.

We refer the committee to the Australian Energy Markets Commission (AEMC) report “Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014” which the following table is taken from.

By component:	National percentage contribution to price change over the projection		Share of residential electricity price in 2013/14 no carbon			Share of residential electricity price in 2013/14 with carbon		
	No carbon	With carbon	National	Lowest state	Highest state	National	Lowest state	Highest state
Transmission	7.6%	6.0%	7.7%	0.0%	17.6%	7.3%	0.0%	16.9%
Distribution	42.4%	33.6%	38.4%	24.1%	47.6%	36.3%	22.9%	44.7%
Wholesale	24.1%	40.2%	32.2%	27.0%	61.0%	36.1%	32.3%	63.8%
Retail	13.2%	12.1%	14.6%	1.3%	27.5%	14.2%	1.4%	27.1%
Feed-in tariff	3.5%	2.8%	0.9%	0.1%	4.3%	0.8%	0.1%	4.1%
LRET	7.3%	3.8%	2.4%	2.2%	3.4%	1.8%	1.6%	2.4%
SRES	-1.1%	-0.8%	0.5%	0.5%	0.7%	0.5%	0.5%	0.7%
Other state based schemes	2.8%	2.2%	3.3%	0.3%	6.2%	3.1%	0.2%	5.8%

The above table clearly indicates that LRET has a relatively small impact on energy prices and is in fact significantly lower with the introduction of a carbon price. This is due to the carbon cost being passed through to consumers by fossil fuel generators via the wholesale energy price.

Under this scenario, the retail energy price will make up to approximately 60% of the revenue stream for renewable energy plant while LRET will make up the remaining 40%.

We would point the Committee to comments from Australian Energy Regulator Chairman Andrew Reeves (AFR, 23 August 2012) who noted that reliability standards have been increased across all states and that those decisions were made without anticipation of changing consumption patterns occurring at the same time as a major infrastructure replacement program.

Mr Reeves “blamed market rules for causing much of the large increase in transmission and distribution prices” which along with generation and retail in South Australia account for around 85-90% of the retail charge.

Adjustments to the RET are unlikely to affect prices in any way that is noticeable to the average consumer.

This point was made by, Shadow Minister for Climate Change Greg Hunt, during his interview on ABC TV 7:30 program on August 21 where he stated that “the NSW independent regulator found in the case of NSW out of an 18 per cent price rise, the carbon tax is nine per cent, the renewable energy target is 0.3 per cent. So that’s 1/60th of the total rise.”

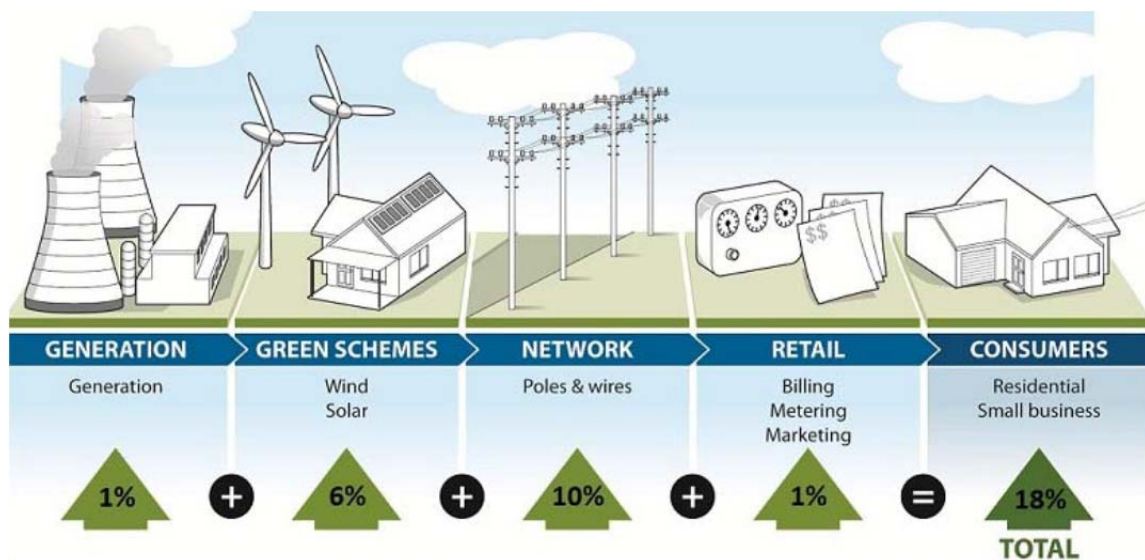
As the previous table clearly demonstrates, the Australian Energy Market Commission have also confirmed price increases in jurisdictions due to the RET are of a similar magnitude

In addition to the AEMC, we refer the Committee to the recent consumer guidance from the NSW Independent Pricing and Regulatory Tribunal over the last 2 years (see below) where they indicate that “green schemes” (including LRET, SRES and other NSW state based schemes) account for a modest increase in 2011 and have not contributed at all to increases in 2012.

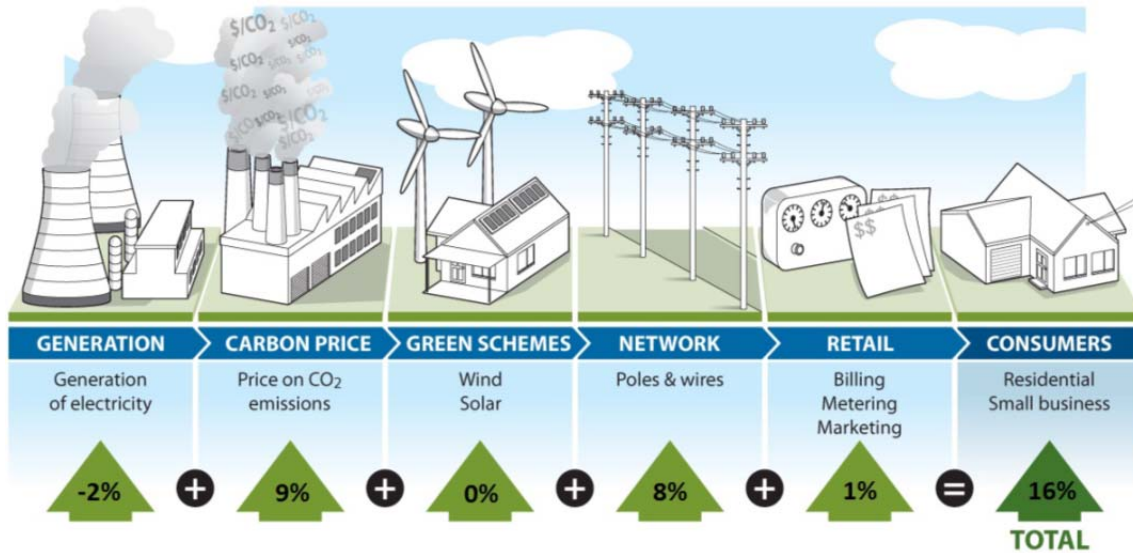
The 2011 impact is far greater than normal due to the solar PV rush that occurred in 2010 and 2011 where very generous state and federal incentives were in place. The 2011 cost impact should be seen as a unique event rather than a trend.

This is not to say that it LRET will not play a small role in future increases but it is indicative of the impact relative to other more significant drivers such as spending on network infrastructure.

Contributions from the supply chain to overall price increases on 1 July 2011



Drivers of increases in average regulated retail electricity prices on 1 July 2012, across NSW (including inflation, %)



By any determination the facts as provided by independent regulatory bodies clearly indicate that while the LRET contributes to higher energy bills the magnitude of that contribution is often significantly overstated.

The material drivers of cost increases has been and will continue to be the need for network service providers to continually upgrade ageing infrastructure to deal with a combination in increased reliability standards and growing peak consumer demand.

Yours sincerely

Andrew Richards
 Executive Manager Government & Corporate Affairs
 Pacific Hydro Australia