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Committee Secretary
Senate Standing Committee on Environment, Communications and the Arts
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Sir / Madam

Inquiry into the Renewable Energy (Electricity) Amendment Bill 2010, the Renewable Energy (Electricity) (Charge) Amendment Bill 2010 and the Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010

The Clean Energy Council (CEC) is the peak body representing Australia's clean energy and energy efficiency industries. Its priorities are to:

- create the optimal conditions in Australia to stimulate investment in the development and deployment of world's best clean energy technologies;
- develop effective legislation and regulation to reduce energy demand and improve its efficient use; and
- work to reduce costs and remove all other barriers to accessing clean energy.

General comment

With the deferral of the Carbon Pollution Reduction Scheme, the Renewable Energy Target (RET) has become the keystone in Australia's response to climate change. Renewable energy policy has enjoyed bipartisan support since 2001. The original Mandatory Renewable Energy Target (MRET) was implemented by the Howard Government in 2001 with a target of 9,500GWh of new renewable energy.

In August 2009 the Rudd Government expanded the target to 45,000GWh or 20 per cent of Australia's supply of stationary energy, by 2020. This legislation was passed with the support of the Coalition.

The amendments before Federal Parliament have been proposed to correct a simple but important feature of the renewable energy target needed to make the legislation operate as intended. The proposed reform is straightforward: to separate the renewable energy target into two markets: large scale generation and small scale generation. These two sectors of the

renewable energy industry are discrete markets that do not operate efficiently or effectively when competing within a single scheme. Separating these two important components of the industry is critical to the continuing long term efficient development of renewable energy in Australia.

As indicated in our submission to the DCCEE issues paper, the CEC supports splitting the RET into separate targets for large and small scale markets. The economic drivers for developers of industrial scale generation are different from those for domestic scale installations. This is recognised in the legislation under consideration.

The proposed LRET will operate in the same manner as the existing RET with a fixed target and a variable price. This amended mechanism will provide drivers to ensure that the most efficient utility-scale projects are brought to market without in any way picking winners.

The fixed price SRES will provide the simple costing structure needed for suppliers of household scale installations to price their offerings in a retail market.

Price impacts of the proposed amendments

This simple reform will address the problems revealed in 2009 and allow both new industrial scale clean energy projects and household deployment of PV panels and solar hot water systems. Modelling commissioned by the Clean Energy Council estimates the electricity price impacts of the revisions will be comparable to or less than those modelled ahead of the original RET bill carriage in August 2009.

Further, the deployment of large scale clean energy generation will help meet growing energy demand and provide benefit to interconnected electricity networks, substantially reducing the net cost of the scheme.

The Rudd Government has estimated the amendments to the RET legislation would increase the price of electricity for the average household by less than \$4 per year. The analysis for the CEC is consistent with this estimate.

Analysis by ROAM Consulting for the CEC in March 2010 suggests that the retail price impact of the SRES is between 0.6 per cent and 2 per cent of retail electricity prices even under an aggressive deployment of deemed technologies such as PV panels and solar hot water. This equates to around \$0.30/MWh to \$1.10/MWh (\$0.04 - \$0.14 a week for an average household).

Comparing the proposed Enhanced RET with the existing Expanded RET shows the savings from the proposed amendments in these Bills.

	Retail price increase	Impact on average household
Expanded RET (August 2009)	\$11.50 - \$16.80 /MWh	\$1.54 - \$2.26 a week
Total LRET and SRES	\$11.10 - \$16.40 /MWh	\$1.49 - \$2.20 a week
SAVING from splitting scheme	Approx \$0.40 /MWh	Approx \$0.05 a week

The economic costs of delivering the RET

The CEC also commissioned ROAM consulting to look at the benefits and costs of implementing the Enhanced RET. This work seeks to inform the debate on the true benefits and costs of the Enhanced RET compared to no RET and factors in the need for backup generation and the provision of further ancillary services to ensure the electricity system can be managed in a reliable fashion.

The modelling looked at both the capital cost of building the required level of renewable generation and the additional system costs associated with deployment of the targeted volume of renewable energy.

It found that the total annualised capital and fixed operations and maintenance cost of delivering the enhanced RET is around \$3 billion (Real 2010 dollars). However, when the benefits that these levels of renewables bring to the system are included in the analysis, the total annualised cost is reduced to about \$2 billion. These benefits include:

- A reduction in the need for new gas fired plant (saving \$200m – \$450m). The ROAM modelling indicates that the presence of renewables on the energy network significantly reduces the need to build new gas fired plant compared to a No RET Scenario. In the No RET Scenario some 8000 MW of new gas fired plant is needed. With the RET in place this drops to 5000 MW. In addition the type of plant needed is changed. In a No RET Scenario 3000 MW (38% of total gas generation required) of Combined Cycle Gas Turbine (CCGT) is built, in the RET Scenario only 1000 MW CCGT (20% of total gas-fired generation required) is built. The balance of gas-fired generation required is met by Open Cycle Gas Turbine (OCGT). OCGT has lower capital cost and operates as a 'peaking generator' whilst CCGT provides baseload power.
- As a result of the reduction in the need for gas fired generation in the ERET Scenario there is an associated reduction in the costs of fuel and variable operation and maintenance compared to the No RET Scenario. This results in an annualised saving of around \$900 million compared to the No RET Scenario.

These results do not include any costs or benefits associated with a carbon price. By 2020 it is reasonable to assume that a carbon price will be in place in Australia. The ROAM modelling indicates that at a carbon price of \$38/tCO_{2-e} (which is consistent with a -5% emissions reduction by 2020) the benefits outlined above are likely to increase, as renewables will not attract a carbon price. Under this carbon pricing scenario, the total costs of deploying renewables reduces to just over \$1 billion by 2020.

Detailed design issues

SRES / LRET

The over supply of RECs from small scale generation has affected the investment decisions of project developers. The CEC investigated a number of options and concluded that splitting the RET into two components was the most efficient way of ensuring the resolution of this issue.

The CEC therefore supports the separation of the RET into a large scale component (LRET) and a small scale component (SRES).

Treatment of existing contracts

The legislation proposes that all forward REC supply contracts, other than those entered into after 26 February 2009, that are explicitly for small scale RECs, will form part of the LRET. The CEC supports this proposal as it provides the regulatory certainty that the market requires.

Clearing house

The CEC supports the voluntary clearing house proposal. This will provide flexibility and reduce the overhead costs of the market.

Timeframe for surrender of SRES

The key issues for suppliers and installers of the household scale technologies that make up the SRES are cash flow and the ability to offer end use customers a Point of Sale discount to offset the capital cost of the systems. The market should be established to minimise the gap between the sale and the payment from the clearing house being received by the householder while managing the administrative overheads of liable parties from more frequent surrender of SRECs.

The CEC supports the proposal to “front end load” the surrender process, combined with a “borrowing” process to ensure that the clearing house does clear each year.

SREC Liability

The CEC supports the fixed price/uncapped volume liability of the SRES as a method of supporting the small scale technologies.

However, liable parties need some certainty to allow them to price and manage their risks. Therefore the CEC supports the concept of setting the annual SREC target based on estimates market activity for the year ahead, with a true-up mechanism in the following year to account for forecasting errors. The CEC further supports the publication of estimates of the future liabilities.

Target Review should SRES be less than 4,000GWh

In the lead up to the release of this legislation, the Government promised that, in order to maintain the integrity of their 45,000GWh target, the target for the LRET would be increased should the number of SRECs created fall below the annual assumed number of 4,000GWh. Again, to provide certainty to developers of large scale renewable generation, they also committed that the LRET target would not be reduced should the annual number SRECs exceed 4,000GWh.

The CEC is concerned that these commitments are not included in either the legislation or the second reading speech and looks to the government to confirm its commitment to the potential increases to the LRET target in the event that the SRES does not deliver the anticipated level of generation.

Review of Legislation

The ERET Explanatory Memorandum calls for an additional review of the renewable energy market in 2012 concentrating on the operation of the SRES. The commitment to this review should be included in the legislation. To minimise the perceived risks from this review, the legislation should also include terms of reference for the review.

The Explanatory Memorandum does include a list of issues that the review will consider. This list includes “the development of a framework in which REC prices in the future are set by an independent regulator”. The CEC believes that the use of the term “REC” in this point is a misprint and the review will be considering a framework for the setting of the SREC price. The CEC would be most concerned if there was a proposal to independently set the price for the LRET. Even the possibility of such a move would undermine the confidence of the whole of the LRET market and is likely to delay decisions for the investment needed to meet the target.

The CEC seeks clarification to remove uncertainty on this issue.

COAG Review of Specific RET Issues

The CEC notes the COAG Review of Specific RET Issues is continuing and looks forward to working with the Government on the outcomes of the Review.

The CEC looks forward to having the opportunity to present to the Committee and answering any questions that require clarification arising from the issues raised in this paper.

Yours sincerely,

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Matthew Warren
CEO