Geoff Blatch
GPO Box 3163
Brisbane QLD 4001

23rd May 2010

The Secretary
Senate Standing Committee on Environment, Communication and the Arts
GPO Box 854
Canberra ACT 2601

Submission to Senate Standing Committee on Environment, Communications and the Arts' - Inquiry into Renewable Energy (Electricity) Amendment Bill 2010 [Provisions]; Renewable Energy (Electricity) (Charge) Amendment Bill 2010[Provisions]; Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010 [Provisions]

Summary

The enhanced MRET amendments will further increase the subsidies extracted from domestic electricity consumers to support the renewable generation industry. Domestic consumers are generally unaware of the growing size and future costs of these subsidies.

The Senate overwhelmingly supported the large increase in subsidies to renewable electricity legislated in 2009, which aimed to have 45,000GWh of renewable generation plus solar water heating in place by 2020. Therefore the proposals in this submission retain the enhanced capability to meet the 2020 target inherent in the enhanced MRET, but recommend changes that will reduce unnecessary costs to domestic consumers and increase their awareness of the scheme. These changes are:

1. A windfall subsidy was given to pre-existing large-scale renewable generation in 2009 when subsidies for renewable generation were extended from 2020 to 2030. This unnecessary subsidy should be eliminated to reduce future costs for electricity consumers.
2. The proposed new LRET is 4,000GWh per year less than the present MRET, but the technologies included in the parallel SRES generated far more than 4,000GWh of RECs in 2009. It is recommended that the LRET be set to 6,000GWh below the present MRET to keep the total of LRET plus SRES outcomes closer to the present MRET. This will immediately reduce the additional costs that will flow to consumers.
3. Domestic consumers presently receive no meaningful information regarding their costs flowing from the MRET scheme. Retailers should be required to itemise in customer invoices both the total cost of the MRET subsidies and the average price of LRET RECs therein.

Context

The MRET (Mandatory Renewable Energy Target) scheme has as Liable Parties the purchasers of wholesale electricity. The retailers that purchase wholesale electricity on behalf of domestic customers have no commercial incentive to minimise the total cost of MRET subsidies; rather, retailer submissions focus on ensuring that competing retailers can pass the same costs through to their end customers.

As a result the various MRET scheme changes have had limited input from (or on behalf of) the domestic consumers that directly and indirectly foot the bill for most of this subsidy. This submission aims to limit the further increase in subsidies inherent in this enhanced MRET via some additional changes that will benefit consumers. (I expect that these aims would be supported by many other domestic electricity consumers.)

Background

The Renewable Energy (Electricity) Amendment Bill 2009 and Renewable Energy (Electricity) (Charge) Amendment Bill 2009 were passed by the Parliament in August 2009. These bills were designed to increase the proportion of electricity generated from renewable sources from the previous ~12.5% target in 2010 to a 20% target in 2020. This was achieved by increasing the total of subsidised renewable generation from 9,500GWh in 2010 to 45,000GWh in 2020.

The 2009 amendments were also used to transfer the cost of generous small-scale PV (photovoltaic) and wind installation subsidies from the Government across to the MRET scheme, so electricity consumers now fund these subsidies within the MRET.

Unfortunately, the amended legislation of 2009 locked in large, unnecessary windfall profits for existing generation. These were:

- Pre-existing renewable generation that was eligible for MRET subsidies until 2020 had the period of these subsidies extended until 2030. This appears to have been done simply because the expanded scheme finishes in 2030.
- The higher GWh target in 2020 requires the construction of expensive new renewable generation that requires higher subsidies than the original MRET scheme (i.e. a higher REC market price). Many pre-existing generators will get a windfall benefit from these REC price increases.

It has turned out that the large new subsidies of 2009 were insufficient for the proponents of large-scale renewable generation to commit to new projects, because competition from PV and SWH (solar water heater) technologies has held down the market price of RECs. The present 'enhanced' MRET proposals are the latest Government intervention in the REC market, and:

- Remove small-scale PV, wind and SWH technologies from a new LRET (Large-scale Renewable Energy Target) market. Elimination of this important source of price competition ensures the price of RECs for both new and pre-existing large-scale renewable generation will increase.
- Create the SRES (Small-scale Renewable Energy Scheme) to subsidise small-scale PV, wind and SWH at a fixed price ($40 per MWh). The volume (total MWh per year) of the SRES subsidy is uncapped. The total size of the LRET

plus SRES markets is forecast to be significantly larger than the fixed trajectory for MRET subsidies legislated in 2009, especially over the next few years[1].

In summary, the Government wants to change the MRET market to increase the subsidies paid by electricity consumers to large-scale renewable generation. In parallel, small-scale PV and SWH installers have been given the certainty to immediately on-sell any number of SRES RECs at a generous fixed price. The only 'losers' created by these 'enhancements' appear to be electricity consumers.

Proposals

Three proposals to somewhat improve the lot of domestic consumers are outlined below. Note that these proposals maintain the key elements of the enhanced MRET that give greater certainty of reaching the target of 45,000GWh of renewable generation plus SWH installations in 2020. The first two proposals aim to remove the payment of subsidies that are unnecessary to meet this target.

Proposal 1: Wind back windfall subsidy to pre-existing large-scale generators

Pre-existing large-scale renewable generators were successfully financed and built on the basis that their extra income from MRET would finish in 2020. The vast majority of these generators (e.g. wind, hydro, black liquor, landfill gas) had a high capital investment component, but also have operating costs well below the wholesale price of electricity and well below the operating costs of competing non-renewable generation. Therefore, these pre-existing renewable generators can continue to operate very profitability after 2020 in the absence of the windfall LRET subsidy from consumers[2].

The LRET market will give pre-existing large-scale generators an increased profit from 2010 to 2020, so now is an excellent time to offset these gains by removing the post-2020 windfall (as shown schematically in Attachment 1).

It is proposed that the LRET eligibility be amended such that:

1. Pre-existing large-scale renewable generation is defined as large-scale generation plant that was operating and registered as an eligible generator under the MRET scheme as of 30 June 2009. (The present legislation was passed in August 2009.)
2. Pre-existing large-scale renewable generation to be ineligible to create RECs after 2020 (as per the original MRET scheme of 2001).
3. The LRET target to be reduced by 7,000GWh from 2021 to 2030. (Note: Pre-existing large-scale renewable generation has an average generation capacity of approximately 7,000GWh per year.)

This proposal promises some relief to electricity consumers after 2020, and will send a clear signal that the Parliament does not support cross-subsidies that are unnecessary to achieve policy aims.

[1] see "Implications of the LRET and SRES modifications to the RET", ROAM Consulting for Clean Energy Council. 18 March 2010. Section 6.2, p13.

[2] Note that the pre-existing renewable generators include a group of 'baselined' hydro generators built before 1997 for which the original MRET scheme was itself a profitable windfall.

The Clean Energy Council modelling[3] ("Medium" cases) indicates that the cost of LRET plus SRES in 2020 will be ~1.4¢/kWh or 5.7% of the delivered price to typical domestic consumers, assuming a CPRS from 2013. In the absence of a CPRS (or some other carbon impost) the LRET market price will be higher, and a larger portion of consumers' electricity bills.

This proposal will reduce the cost of the enhanced MRET to consumers by around 15%. If LRET RECs are priced in the market at $50 the total saving will be $350,000,000 per year, if priced at the $92 ceiling the saving will be $644,000,000 per year.

Proposal 2: Better match the LRET plus SRES with the existing MRET targets

The enhanced MRET amendments set the LRET annual targets to the existing MRET targets, less 4,000GWh. That is, if the existing yearly targets of the MRET were kept, the SRES could only subsidise 4,000GWh of renewable electricity and SWH each year.

In reality, 4,000GWh per year is well below the rate that SRES technologies were installed and RECs created in 2009[4]. Therefore, the enhanced MRET will increase substantially the volume of subsidies compared with the present MRET scheme. A particularly large increase is forecast over the medium-term[5], so there will be an immediate increase in costs to domestic consumers.

It is proposed that the LRET yearly targets instead be set at 6,000GWh below the existing MRET annual targets to better match the likely size of the SRES, and contain the increased volume of subsidies from the enhanced MRET. Under this proposal, a challenging LRET target of 39,000GWh remains in 2020.

The proposed 6,000GWh per annum offset is a better estimate of the future size of the SRES, but it is still only a forecast in the longer term. Therefore, it is also recommended that when the SRES 'fixed' price is reviewed in 2014, the price be adjusted with the aim of achieving a 6,000GWh SRES. That is:

- If the SRES is significantly greater than 6,000GWh the fixed price should be reduced to reduce the total subsidy (and also potentially reduce consumer demand for these technologies).
- If the SRES is significantly less than 6,000GWh the fixed price could be increased to increase consumer demand, or the LRET target trajectory could be increased from 2015 to 2020 to offset the projected SRES shortfall.

The savings to electricity consumers from this change will be significant, as the immediate volume and price increases from the enhanced MRET will be reduced. For example, if LRET RECs are valued at $50 in 2011 the volume saving alone is worth $100,000,000 in that year. This saving is expected to increase annually, in line with the forecast increase in LRET market prices after 2011.

[3] see "Implications of the LRET and SRES modifications to the RET", ROAM Consulting for Clean Energy Council. 18 March 2010. Section 9. "Medium" forecasts.
[4] see "Implications of the LRET and SRES modifications to the RET", ROAM Consulting for Clean Energy Council. 18 March 2010. Section 4.
[5] see "Implications of the LRET and SRES modifications to the RET", ROAM Consulting for Clean Energy Council. 18 March 2010. Section 5.

Proposal 3: Identification of MRET costs in domestic electricity bills

I have had a number of conversations with family and friends on the topic of the MRET scheme. These conversations were pretty one-sided, because there is near-universal ignorance that this legislation exists, or that there is a renewable electricity subsidy 'hidden' within domestic electricity bills.

To-date this has not been a particularly important issue, because the cost of MRET has not been material for domestic customers. However, the large expansion of the MRET in 2009 plus these latest proposed 'enhancements' will drive the cost of the combined LRET and SRES to a level that is significant. As noted above, one 'median' projection is that the LRET plus SRES will contribute 5.7% of a typical domestic electricity bill in 2020, assuming the CPRS is introduced. If a CPRS is not introduced, the cost of LRET plus SRES will be an even higher proportion of domestic electricity bills.

Therefore, it is now appropriate for the MRET legislation to be amended to ensure that domestic consumers can identify the costs of the LRET plus SRES in their electricity bills. This requires the liable parties under the MRET to quantify the size of MRET costs passed through to end-consumers within their electricity bills. Therefore, it is proposed that:

1. Electricity retailers are required to quantify in electricity invoices the total cost of MRET liabilities (LRET plus SRES) passed-through to customers.
2. Electricity retailers (liable parties) to publish the weighted average price of LRET RECs purchased on behalf of domestic consumers in a billing period.

The benefits of supplying this information to domestic consumers include:

- Domestic consumers can see the size of their direct subsidy (via the LRET and SRES) going to the renewable electricity industry. (Secondary costs such as back-up generation costs will remain 'hidden' within the wholesale electricity price.)
- Consumers and consumer advocates can confirm that Retailers are efficiently managing LRET and SRES costs. That is, retailers are not adding excessive mark-ups to the true pass-through costs of the MRET scheme.

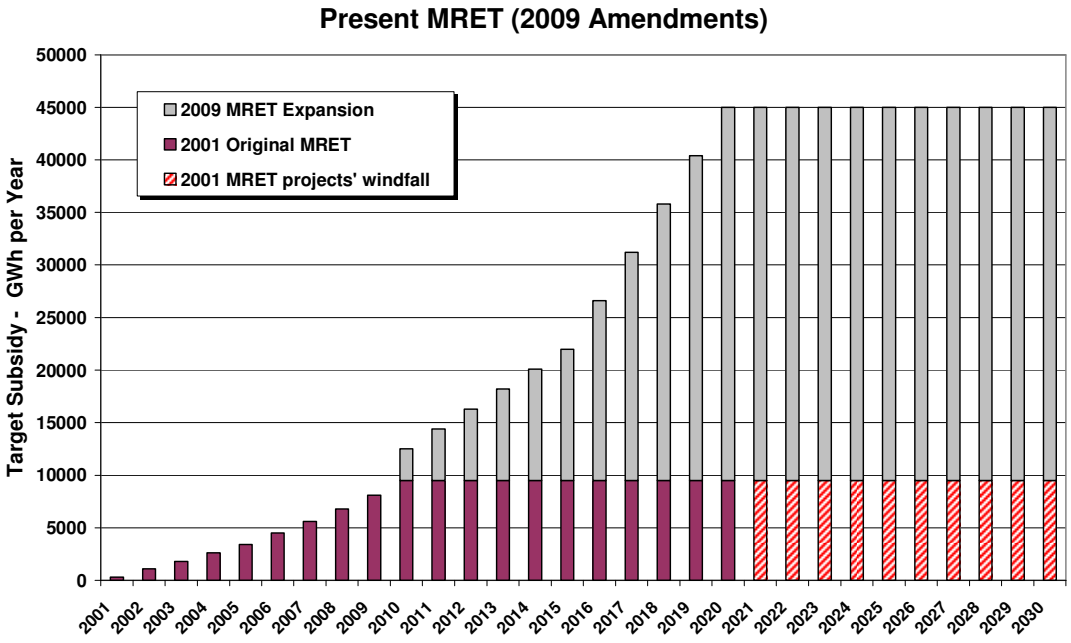
Please contact me if you would like further clarification of the above,

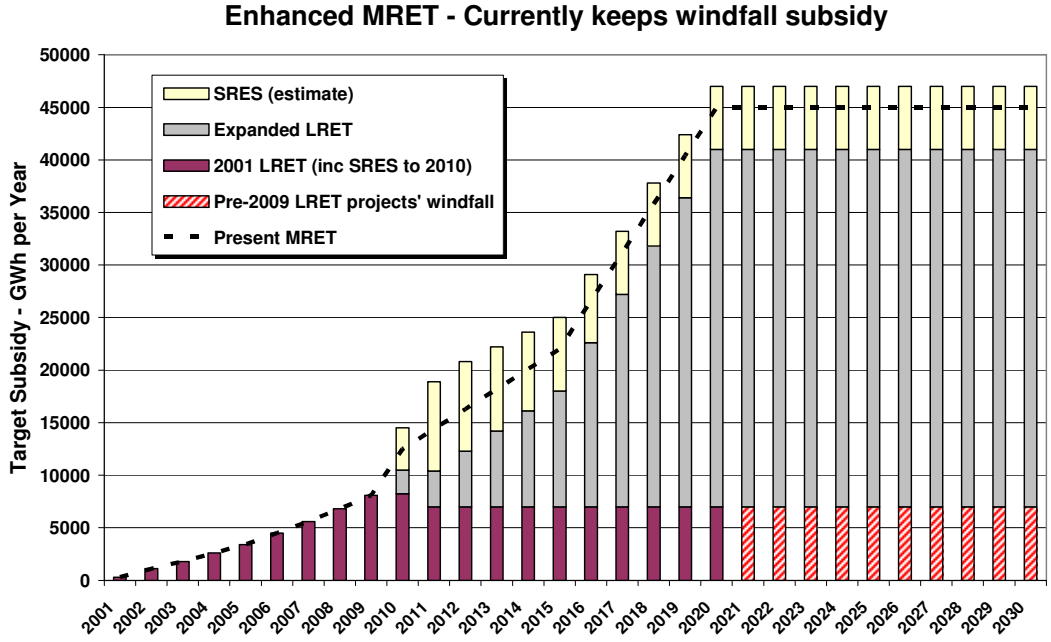
Yours Sincerely,

Geoff Blatch

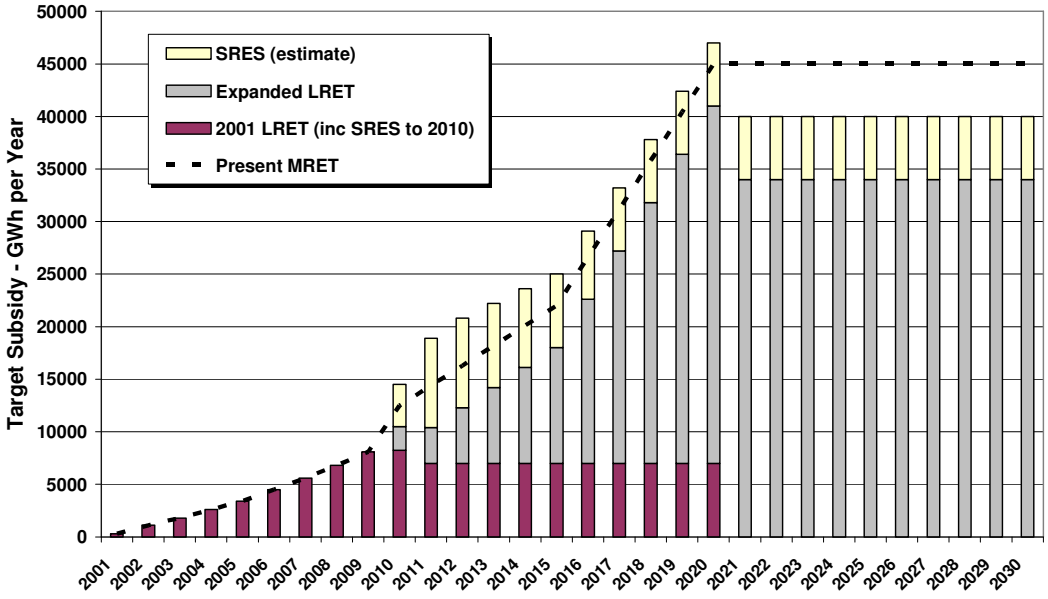
Attachment 1: Schematics show:

1. **Present MRET (includes windfall subsidy for pre-existing generators),**
2. **Enhanced MRET (which keeps the windfall subsidy),**
3. **PROPOSAL #1 - Enhanced MRET without windfall subsidy, and**
4. **PROPOSAL #1 & #2 – Enhanced MRET without windfall subsidy, and with 6,000GWh assigned to SRES.**





Enhanced MRET - Proposed removal of windfall subsidy



Enhanced MRET - SRES assigned 6,000GWh of MRET