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SUBMISSION TO SENATE INQUIRY INTO CHANGES TO THE RENEWABLE ENERGY TARGET (RET) SCHEME LEGISLATION (MAY 2010)

A3P represents the plantation products and paper industry in Australia. Our members operate in the areas of plantation growing, solid wood and wood fibre processing, and pulp & paper manufacturing. The various sectors are faced with divergent opportunities and threats from renewable energy policy.

For the information of the Committee, we attach A3P's April 2010 submission to the Department of Climate Change and Energy Efficiency discussion paper on changes to the Renewable Energy Target (RET) Scheme into small-scale and large-scale components. The issues raised in this submission remain relevant, with the exception of concerns regarding tissue paper manufacturers not receiving partial exemption certificates because of the failure of a single company to submit data. If the relevant sections of the Bills currently before Parliament remain unchanged, the Minister would have discretion to award partial exemption to compliant companies.

As outlined in the attached, A3P's major concern relates to the uncertainty created for electricity users by the uncapped nature of the small-scale renewable energy scheme.

A3P is a member of the Australian Industry Greenhouse Network and supports its submission to the Committee.

Yours sincerely

[redacted]

Marion Niederkofler
Manager Climate Change Policy

Background

A3P represents the plantation products and paper industry in Australia. Our members operate in the areas of plantation growing, solid wood and wood fibre processing, and pulp & paper manufacturing. The various sectors are faced with divergent opportunities and threats from renewable energy policy. The pulp & paper and wood panels manufacturing sectors are significant users of energy (both grid-purchased electricity, and electricity and heat produced on-site from renewable and fossil-based sources). The solid wood sector is both an energy user and a producer of renewable energy from residues. Plantations generate valuable biomass feedstock from harvest residues, and the sector could expand substantially to include purpose-grown energy crops.

The RET will impose considerable increased costs on pulp & paper and wood panels manufacturing; these costs will compound very quickly in the coming years (due to the rising price of Renewable Energy Certificates [RECs] and the rapidly growing RET target). The proposed EITE assistance will ameliorate this price impact for those who are eligible, but a growing proportion of the financial burden will fall to private businesses to manage while the Carbon Pollution Reduction Scheme (CPRS) may also be driving up energy costs. To these concerns has now been added the lack of certainty for energy users occasioned by the intention not to cap the amount of small-scale generation that can be created under the RET. The Government expects private industry to finance an unknown quantity of household renewable installations. This creates a risk that cannot be adequately managed, and which would be increased by additional subsidies that may be provided to households for renewable energy generation (e.g. State Government grants on solar installations). Under conventional circumstances, such market conditions repel investment.

Many of the opportunities for enhanced renewable energy production in our industry cannot be realised through the RET because it is restricted to incentivising renewable electricity generation. A3P continues to urge the Government to consider putting in place appropriate policy drivers to tap the potential for renewable heat and transport fuel production in the plantation products and paper industry to complement the RET. This is consistent with the goal of dramatically increasing our renewable energy (not only electricity) generation to 20% by 2020.

Summary of Key Points

- Capping the price but not the quantity of small-scale renewable electricity certificates introduces uncertainty into the electricity price for consumers. This problem is compounded in the case of electricity-intensive processes for which electricity makes up a significant proportion of their operating costs. The small-scale portion of the RET should be capped, or removed from the RET altogether.
- The large-scale portion of the RET should not be subject to volatility (again for electricity consumers rather than producers) due to the poor design of the small-scale portion. It is not suitable to reserve the right to increase the LRET target if the Government deems there are not enough household renewable electricity installations. Since the Government expects the private sector to fully fund the realisation of Australia's target of 20% renewable energy by 2020, some measure of stability must be present in its policy tools. The future price(s) of renewable electricity under the RET is relatively unknown and is a risk that companies must plan to manage. If there is no stability in the size of the target either, their operating environment will become even more uncertain.
- There is still no legal requirement for electricity retailers to pass on to EITE entities the full exemption they are entitled to under the RET. This issue remains unresolved because it was not addressed in drafting the Regulations.
- All companies undertaking Tissue Paper Manufacturing in Australia are at this time unable to access RET assistance because a single company has not submitted data. This outcome is unjust on the majority of companies, who have complied with all processes, and incurred costs, to be recognised as

eligible EITE activities. A3P urges the Government to provide RET exemptions to these companies from the first year of its operation.

- As a member of AIGN, A3P supports written contributions made by AIGN on behalf of Australian industry more generally.

SRES Implementation Options

Establishing a clearing house mechanism

Would liable entities and SREC suppliers want the flexibility of trading outside the clearing house?

A3P supports AIGN's contributions to these questions on behalf of Australian industry.

SRES Implementation Options

Providing certainty to liable entities – determining annual liability

The Government is seeking views on which of the options above or other options would provide adequate certainty for electricity retailers and other liable entities under the RET.

Discussion Paper on Changes to RET

The purpose of these late alterations to the RET after it has already been implemented centre on the need of investors in renewable electricity projects to have confidence that there will be demand for their product (i.e. RECs). This is a reasonable requirement on behalf of suppliers. However, in attempting to fix the problem it had created by allowing small-scale household renewable installations easy access to the RECs market on generous terms, the Government has not considered that stability in the market is no less necessary for consumers as producers. Costs which may be highly variable, and which electricity consumers would find difficult to control, are an unacceptable risk for energy consumers. Indeed, it is a deterrent for new investment and creates many problems for existing electricity-intensive operations.

Risk Created by the Small-Scale Renewable Energy Scheme (SRES)

It naturally follows from the above that the proposal to fix the price but not the quantity of small-scale renewable electricity generation is not palatable to major electricity users. Without reasonably stable long-term predictions of operating costs, it is not possible to undertake the minimum level of financial planning necessary for a business to function efficiently. Options for managing the risk presented in the discussion paper are insufficient for dealing with the potential scale of this problem. At best, they give a very few months' certainty over SRES-related costs, which at the same fails to overcome the extent of the financial planning problem as it enhances the inherent uncertainty of costs in future years.

The proposal to cap SRECs at $40 but leave the size of the SRES target uncapped is extremely undesirable for energy users. A3P is of the view that the SRES target must also be capped in order to enable businesses to better plan for their liabilities under this and other policies that will increase electricity prices.

Should the Government insist on an uncapped SRES, then this sub-scheme of the RET will no longer operate as a market-based mechanism where suppliers and consumers share the role of setting the optimum price and/or amount of production. All market control would rest with producers of small-scale renewable generation. If the Government wishes to have an uncapped SRES, the SRES should be funded by the Government.

SRES Implementation Options

Ensuring the timely purchase of RECs – annual or periodic surrender of RECs

Would periodic surrender give SREC holders timely purchase of their SRECs?

Would quarterly surrender allow liable entities to align their SREC surrender processes with existing business requirements and pricing of electricity?

Other Issues

The treatment of existing forward contracts

Views are sought on the proposed approach for recognition of 'pre-existing contracts'.

Other Issues

Assistance for emissions-intensive, trade-exposed (EITE) entities

The Government is interested in stakeholder views on the implications of the LRET and SRES on the partial exemption regulations for EITEs and the proposed approach.

Any additional comments

Review of and Potential Changes to Large-scale Renewable Energy Target (LRET)

In addition to heightened complexity in design and compliance, the separation of large and small-scale renewable electricity generation under the RET has created uncertainty problems with both of its new aspects.

With respect to the LRET, A3P is concerned about the following information in the discussion paper:

> "…the uptake of small-scale systems will be reviewed in 2014 and the target increased in the LRET if deployment of small-scale technologies is lower than expected." (page 17)

The careful language of this sentence leaves it troublingly open to interpretation. It gives no indication of what the expected level of small-scale technology deployment is, and whether this expectation may change over time. The discussion paper certainly does not spell out a level of 'expected deployment' (e.g. the 4,000 GWh that was removed from the RET target in setting demand under LRET); in fact, given the words used, 'expected deployment' could be set to almost any figure, and need not be constant.

This is yet another example of the RET, which was designed as a *market mechanism*, being tampered with to lessen its similarity to a well-functioning market. The potential increase of the LRET target exacerbates the elements of uncertainty present in the SRES. The LRET also cannot be relied upon to send stable signals to electricity consumers, however much producers may like the prospect of the target increasing. Moreover, the intention to perhaps increase the target if the SRES underperforms is not balanced by an equal intention in the other direction – to lessen the LRET target if the SRES exceeds expectations.

The LRET targets should not be corrupted with threatened increases. They must at the outset be fixed at predetermined levels and so remain for the duration of the scheme, sending clear and stable signals. A market with one uncertainty (in this case, price) creates the appropriate incentives. A market where consumers have contributing influence over neither price nor demand, with the additional complication of being forced to vary their demand due to volatile policy, is filled with such risk that the rational decisions individual companies may make would limit their exposure by downsizing operations. In addition to impacts such as loss of investment, employment and long-term growth, this outcome would work against the expansion of the renewable electricity industry by reducing overall demand for electricity from any source.

Unresolved Issues from RET EITE Regulations

At the time of the release of the Draft EITE Regulations in December 2009, A3P made a submission raising two important issues which remain unresolved at this time. A3P believes that speedy resolution of both matters are essential to the smooth and equitable operation of RET partial exemptions for EITE industries. The issues are detailed below.

Use of Partial Exemption Certificates (PECs)

A3P remains concerned about the lack of any requirement for liable entities under the RET to pass on the benefits they obtain from PECs to their customers undertaking EITE activities. The commentary to the draft regulations alludes to EITE entities voluntarily providing copies of the PECs they are issued to electricity retailers, but there is no language in the Regulations requiring electricity retailers to pass on 100% of the exemption they would receive from the Government, back to the EITE entities that voluntarily handed over the PECs.

This leaves EITE entities exposed and at the mercy of electricity retailers, who could lawfully withhold part or all of the benefit of the PECs from their EITE customers. There also appears to be no requirement on the electricity retailer to honour PECs; they could feasibly refuse to accept them and instead pass the full cost of electricity price increases on to all customers. A3P recommends that the Government include explicit requirements on electricity retailers in the RET Regulations, such that EITE entities can be confident that the PECs issued them will be honoured by their suppliers, *and* that they will receive the full amount of the exemption to which they are entitled.

Tissue Paper Manufacturing Activity Definition

The RET EITE Regulations do not list Tissue Paper Manufacturing as an eligible EITE activity. As a result, all companies undertaking this activity are entitled to no assistance under the RET; they cannot apply for PECs as their activity is not recognised. This is despite the majority of companies involved in tissue paper manufacturing cooperating with the Department of Climate Change and Energy Efficiency (DCCEE) at every step along a very resource-intensive process to be recognised as eligible EITE activities. All relevant A3P member companies have participated fully in defining pulp & paper manufacturing activities and undertaking costly data audits. It is not only disappointing, but a breach of the good faith working relationship in which companies have been participating at the behest of officials, that the Government is effectively threatening to withhold RET assistance from some companies because of circumstances beyond their control.

The Government has so far been unwilling to set baselines for Tissue Paper Manufacturing because of the failure of one company that undertakes this activity in Australia to provide the necessary data. In spite of numerous attempts to seek clarity on this issue, A3P has received no assurance that the Government will provide assistance to the companies that did cooperate if this state of affairs persists. This would expose an A3P member who has cooperated fully with DCCEE to the full cost increase on its electricity use. A3P requests that the Government give an assurance that RET assistance will not be withheld from those companies that have complied with its processes. This issue must be resolved well in advance of the deadline for applying for PECs for the first year of the RET (31 October 2010).

Other Issues from RET Regulations

A3P would like clarification on a number of points of detail within the Regulations. These primarily relate to clauses which are open to interpretation, and which could create difficulties in terms of compliance if they are not addressed. A3P would appreciate an early opportunity to discuss these issues with DCCEE.