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AGL

**Senate Environment, Communications and
the Arts Legislation Committee**

Parliament House

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Dear Committee,

AGL Energy welcomes the opportunity to provide comment on the Renewable Energy (Electricity) Amendment Bill 2010 and two related bills. These bills represent important progressive enhancements for Australia's clean energy industry and consumers. The bills are considered to be entirely consistent with the objectives of the RET Scheme, and AGL strongly supports an expedient legislative passage.

As Australia's leading investor in renewable energy in Australia, AGL is well placed to comment on the amendment bills. AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation and electricity retailing. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia. To date, AGL has invested well over \$2 billion in renewable energy.

AGL is a unique participant in the Australian renewable energy industry, with interaction spanning three aspects:

1. Liabe entity under the Renewable Energy Target (RET) Scheme – each year AGL must acquit sufficient numbers of Renewable Energy Certificates (RECs) to meet its obligation under the RET, as determined by the quantity of liable load in MWh sold, and the Renewable Power Percentage (RPP) for that year.
2. Small scale renewable energy technology installer – through AGL Assist and the AGL branded dealer network, AGL installs a range of small scale renewable energy generation, including solar PV, and onsite renewable technologies such as solar hot water systems.
3. Large scale renewable energy developer – AGL has the largest privately owned/or operated renewable energy portfolio in Australia, approximately 1,080MW of installed capacity. A further 320MW is under construction, and some 2,000MW is under consideration. These interests span a range of technologies including wind, hydro, solar and geothermal.

Due to this diverse participation, AGL's comments on the RET Scheme amendment bills are considered a comprehensive view on the optimal approach to providing market certainty and preserving existing investment value.

In this submission AGL firstly provides an overview of the importance of the enhancements that these amendment bills represent, followed by a summary of the key aspects of the bills that AGL supports, and finally some comments on the benefits of the RET Scheme.

- > Being Australia's largest private owner and operator of renewable energy assets
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series

Drivers for enhancing the RET Scheme

The objectives of the RET Scheme, as legislated in August 2009 were to encourage additional generation of electricity from renewable sources, reduce emissions in the electricity sector and ensure renewable energy sources are ecologically sustainable.

Due the introduction of significant, overlapping policy with respect to small scale technologies in a range of jurisdictions, these objectives have been placed in jeopardy. The REC market has been distorted and consequently new investment in large scale renewable electricity generation to satisfy the 20% target has stalled.

To address the distortions in the REC market, on 26 February 2010 the Government announced its intention to separate the RET Scheme into two components:

1. Large Scale Renewable Energy Target (LRET) – to deliver the majority of the 20% renewable energy target by 2020, utilising the existing market mechanism to deploy least-cost large scale renewable electricity generation.
2. Small Scale Renewable Energy Scheme (SRES) – to provide a firm incentive for the deployment of small scale renewable energy technologies, and contribute to the overall RET target of 20% renewable energy generation by 2020.

AGL supports these proposed enhancements as they directly address the distortions that have emerged in the REC market since the expanded RET Scheme was legislated. Without expedient implementation of these enhancements, the REC market will continue to be distorted, jeopardising the 20% target and stymieing investment in large scale renewable electricity generation in Australia. Furthermore, failure to pass these amendments will add further uncertainty to the regulatory environment. This could have profound negative consequences for long-term energy security in Australia due to the impacts on perceptions of the Australian market of international investors.

Details of the amendment bills

The bills introduced to the House of Representatives on 12 May 2010 provide for delivery of the enhancements announced by the Government on 26 February 2010. They also reflect feedback the Department of Climate Change and Energy Efficiency received through a public consultation process in April 2010.

As provided for in the amendment bills, AGL supports:

- A commencement date for the two separate components of 1 January 2011, with all current and remaining 2010 REC creation activities being bankable and eligible under the forthcoming LRET. These arrangements will preserve existing investment decisions made under the RET Scheme.
- Introduction of a Small Scale Technology Percentage (STP) to determine the liability for retailers and other liable entities, together with an obligation on the Regulator to publish a two-year forward projection. This projection will enhance market certainty for liable entities and small scale installers of the likely future demand and supply under the Small Scale Renewable Energy Scheme (SRES).
- An optional clearing house for small scale Renewable Energy Certificates (SRECs), together with a quarterly obligation placed on liable entities to surrender SRECs. This will ensure market participants retain flexibility on how to best participate in the SRES, and provide households and other small scale investors with timely payment of the fixed incentive.

The bills also put effect to operating the LRET on the same basis as the existing RET Scheme. AGL considers this is pragmatic as it allows the REC market to continue with minimal interruptions and will enable large scale renewable electricity generation to be deployed at least cost.

Benefits of the RET Scheme

After receiving bi-partisan support, the 20% RET Scheme was legislated in August 2009. At that time, modelling commissioned by the Government indicated that the RET Scheme would:

- Drive considerable investment in renewable electricity generation in Australia at both the distributed level, and around 7,000MW of additional large scale generation capacity;¹
- Contain the growth in greenhouse gas emissions in Australia's electricity generation sector;² and
- Assuming a price on carbon to deliver a 5% greenhouse gas emissions reduction target by 2020, increase retail electricity prices by no more than 3.5% on average over the decade.³

In delivering these benefits, the RET Scheme will place Australia on an investment pathway that is consistent with renewable energy development in other comparative nations around the world. As such, AGL contends that the proposed enhancements that these amendment bills deliver is of paramount importance to ensuring Australia, in competing in a global market for renewable technologies, achieves the 20% renewable electricity generation target by 2020.

Conclusion

AGL welcomes the introduction of amendments to the RET Scheme to deliver the intent of the RET Scheme as legislated in August 2009. AGL considers that the amendment bills are sufficiently drafted to deliver the Government's announced enhancements, and looks forward to contributing strongly to the achievement of the 20% renewable electricity generation target by 2020.

Yours sincerely,

Tim Nelson
Head of Economic Policy and Sustainability

¹ MMA Report to the Department of Climate Change, January 2009. Page 4.

² Tracking to the Kyoto Target, Department of Climate Change, 2008. Page 7.

³ MMA Report to the Department of Climate Change, January 2009. Page 6.