



GE Energy

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

RE: Inquiry into the *Renewable Energy (Electricity) Amendment Bill 2010*

A legally binding Renewable Energy Target (RET) for Australia has enjoyed bipartisan support since the 1990s.

This support culminated in the passage of the landmark *Renewable Energy (Electricity) Act 2000*, which set a 9500-GWh target for additional renewable energy by 2010.

This target - known as Mandatory Renewable Energy Target - was designed to "accelerate the uptake of renewable energy in grid-based electricity and provide a larger base for the development of commercially competitive renewable energy"¹.

The Australian Government's decision to increase the RET to 45,000 GWh or 20% by 2020 was passed by the House of Representatives and Senate last year.

The expanded RET included a new mechanism - Solar Credits - to provide multiple renewable energy certificates (RECs) as "powerful incentives for people to install micro-generation units"².

¹ The Right Honourable John Howard, "Safeguarding the Future: Australia's response to climate change", November 20, 1997

² The Honourable Wayne Swan, "Building Australia's Low Pollution Future with Renewable Energy and New Solar Credits", December 17, 2008

In recent months, the Government³, Opposition⁴ and the Greens⁵ have separately acknowledged the need to urgently amend the RET primarily due to the impacts of Solar Credits.

General Electric position

General Electric (GE) supports the proposed segregation of RET into large-scale and small-scale targets effective from January 1, 2011 as proposed by the Government in the *Renewable Energy (Electricity) Amendment Bill 2010*.

GE believes these reforms can - with the inclusion of a transitional safeguard in the Large-scale Renewable Energy Target (LRET) - provide greater regulatory certainty, help stimulate new investment and job creation in the renewable energy sector, displace a targeted proportion of higher-emitting, fossil-fuelled power with energy from renewable sources and thereby improve greenhouse gas abatement.

Recommendation:

To achieve these shared public policy objectives, GE seeks the inclusion of a safeguard within the legislation to ensure the smooth transition from a single RET to a two-tiered LRET and Small-scale Renewable Energy Scheme (SRES).

The current proposal to allow banked RECs created before December 31 this year, and those from forward contracts prior to February 26 this year, to only be surrendered against the

³ The Department of Climate Change released a discussion paper "The Treatment of 'Solar Credits' Renewable Energy Certificates under the RET" on December 21, 2009 and the Government announced its proposal for a two-tiered RET on February 26, 2010.

⁴ The Coalition released its "Direct Action Plan on the Environment and Climate Change" policy on February 2, 2010. The policy advocated a separate band for renewable energy projects over 50MW.

⁵ The Greens presented a Private Member's Bill to the Parliament on February 25, 2010 seeking to "add RECS from solar hot water, heat pumps and the solar credits multiplier to the top of the target".

LRET has the potential to stall large-scale renewable energy project investment and development.

The surrender of more than 20 million banked or forward contract RECs would be sufficient to account for the LRET target in 2011 (10.4 million large-scale technology certificates) and 2012 (12.3 million large-scale technology certificates)⁶.

If this is the case, no new RECs from large-scale renewable energy projects will be required until 2013. Such an outcome would be contrary to the original intent of RET legislation to encourage development of “grid-based” renewable energy generation and secure greenhouse gas abatement from displacing higher-emitting energy sources with renewable power generation.

Annual LRET true-up for banked and forward contract RECs

GE believes the safeguard, in the form of an annual “true-up” mechanism for the LRET, is required to ensure the surrender of banked and forward contract RECs does not delay large-scale renewable energy project investment and development in the transition to a two-tiered RET.

The true-up mechanism would operate in the same way the Government proposed in its Solar Credits discussion paper, whereby there would be *“an annual review of Solar Credit uptake in the previous year and the target for the year immediately following increased by a commensurate amount. This approach would have the advantage of ensuring the targets are quickly recalibrated to reflect the precise level of additional RECs created by the multiplier in the scheme.”*⁷

⁶ Renewable Energy Certificates and Large-scale Technology Certificates are both the equivalent of one MWh.

⁷ Department of Climate Change, “The Treatment of ‘Solar Credits’ Renewable Energy Certificates under the RET”, December 21, 2009, page 5

Without a true-up mechanism, there is no safeguard against large-scale renewable energy projects being crowded out with the LRET.

The Roam Consulting study commissioned by the Clean Energy Council found that: *"If all banked RECs are surrendered as soon as possible, this could depress the RECS price significantly until 2014-15, potentially to levels where large-scale generation could not be supported."*⁸

For instance, if six million banked RECs were surrendered against the LRET of 10.4 million RECs in 2011; the 2012 LRET of 12.3 million RECs would be increased to 18.3 million. The LRET for subsequent years would be amended according to the levels of banked and forward contract RECs surrendered.

Conclusion

GE encourages the Parliament of Australia to continue to support a Renewable Energy Target, and provide regulatory certainty for the renewable energy industry.

The establishment of a two-tiered RET from January 1, 2011 is an important initiative to encourage renewable energy project investment and job creation, as well as achieve greater GHG abatement.

However, the transition must be managed carefully and the inclusion of an annual "true-up" mechanism for LRET will best preserve the policy's intent to incentivise large-scale renewable energy projects.

GE looks forward to consultation with the Australian Government on the regulations to underpin the legislative amendments currently before the Committee.

If I can provide any further information, please contact me on 07 3238 4302

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