



24 May 2010

Committee Secretary
Senate Environment, Communications and the Arts Legislation Committee
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Dear Sir / Madam

Submission on Inquiry into *Renewable Energy (Electricity) Amendment Bill 2010*

Origin Energy Limited (Origin) welcomes this opportunity to make a submission on the Inquiry into the *Renewable Energy (Electricity) Amendment Bill 2010*. The open consultation process that has been undertaken by the Department of Climate Change and Energy Efficiency, conducted under considerable time pressures, has been greatly appreciated.

Origin is a major Australasian integrated energy company focused on gas exploration, production and export, power generation and energy retailing. As a major retailer with over two million electricity customers we are one of the largest participants in the Renewable Energy Target (RET) scheme. Origin has been at the forefront of delivering sustainable energy solutions to the market for many years, and currently has over 500,000 green energy customers. We are a significant investor in renewable energy technologies, including geothermal, solar and wind.

Origin has long supported the RET as part of a suite of policies which aim to develop a wide range of renewable energy sources to reduce the carbon intensity of the Australian electricity market. Other important policies include:

- a broad based emissions trading scheme, which should in our view be the central plank in Australia's climate change policy;
- support for research, development and deployment; and
- transmission infrastructure and planning.

In this context we are very concerned with the current delay in passing the Carbon Pollution Reduction Scheme (CPRS). Without a long-term carbon price many renewable energy projects may not be viable, even with the RET. Some emerging technologies will not be deployed until later in this decade. With the RET legislated to phase out by 2030, this means that such projects will have less than the normal 15 years to recover their costs under the RET. Without the support provided by the CPRS this means they will be relying solely on the RET, a risk that may deter some investors.

Importantly, if Australia is serious about meeting its stated minimum emissions reduction target of a 5% reduction on 2000 levels by 2020 (a target which has bi-partisan political support) then some form of carbon pricing is essential. ***Delaying a CPRS to 2013 or later will only make the required transition more expensive and disruptive to the economy as a whole compared to an earlier start.*** This is exemplified in the electricity sector, which involves large-scale, long-lived investments which take many years to develop and construct. Without appropriate policy settings now, the market will not be able to invest in the low emissions technologies which are required to meet this target in 2020.

The Large-scale Renewable Energy Target (LRET)

In the absence of the CPRS, the LRET will be the only policy to drive large scale emissions reductions in the electricity sector. In our previous submissions we have consistently advocated for a simple, stable RET market that will provide the confidence to invest in the widest possible range of renewable energy sources for reducing the carbon intensity of the Australian electricity market.

The current amendments to establish the LRET are prudent, are strongly supported by the industry and in our view should be passed as soon as possible to help return confidence to the large scale renewable energy market.

We note that Renewable Energy Credit (REC) prices recovered strongly on the initial announcement of the changes to the RET moving from about \$30 to about \$47. However, the uncertainty over whether the changes will actually be passed by Parliament, particularly with a Federal election imminent, has seen these prices soften considerably to about \$38 at the time of writing. This volatility emphasise just how sensitive the RET market is to changes, or proposed changes, to the regulation of the market. The RET has undergone considerable turmoil over the past three years because of constant regulatory change.

It is important that the changes currently proposed are legislated so that the market can proceed with regulatory certainty. In this respect we support the simple transitional measures outlined in the legislation, which seek to impose the minimum level of change on market participants. Key features of this transition include the:

- use of existing/banked RECs in the proposed LRET; and
- recognition of pre-existing contracts.

We strongly believe that such provisions are essential to maintain investment confidence in the RET market as they ensure that participants who have invested in good faith under the previous RET rules will not be unfairly disadvantaged by the proposed changes.

We understand that some market participants may favour a limit on the number of RECs that may be banked by the end of this year and then used in the new LRET from 2011; or an earlier time limit on when such banking ends. Origin would caution against this. We believe that the risks in trying to “over-engineer” a result strongly outweigh any potential benefits. In particular we see a real risk of the LRET price increasing to the penalty level if new generation (most likely wind farms) cannot be planned and constructed as expected. It must be remembered that it takes a number of years to progress a wind farm from planning stages to full operation. Whilst some *conditional* announcements to build new wind farms have been made in response to the proposed changes, *final investment decisions* are unlikely to be made until the legislation is passed.

The Small-scale Renewable Energy Scheme (SRES)

Origin has some concerns with the proposed implementation of the SRES. We believe that the SRES is complicated and not the most efficient policy available to promote small-scale renewable technologies. The SRES effectively provides an up-front subsidy to consumers. Simpler mechanisms such as a direct budget funded subsidy would more efficiently and equitably achieve this aim.

However, we understand that the SRES is the Government’s preferred policy and we support the improvements that have been made to the SRES over the consultation period. These features include:

- the annual (capped) target, set upfront for one year;
- guidance on forward targets for a further two years; and
- an optional clearing house.

The one detailed issue with the SRES that still concerns us (and other liable parties) is the short period of notice given to liable parties regarding annual targets. As currently drafted, the regulator has until 31 March of the relevant year to advise a liable party of its target -

potentially a full quarter of the way through the compliance year. We understand this has been chosen to mirror the existing legislation. However, with a move to quarterly acquittal of small-scale certificates this gives very little time to manage the first quarter's liability which is due by 28 April, only one month later. Further, this first quarter is actually "front-loaded" to 35% of the year's liability. The uncertainty will be exacerbated in the first year of the SRES because the market has received very little guidance on what the SRES target might look like. The Government media releases imply an annual target of 4000 GWh but figures of up to 25,000 GWh have been mentioned by market participants. Not only does this make it difficult for liable parties to manage their SREC position it is almost impossible to provide quotes to customers regarding the impact of the SRES on their bills or recover the impost in regulated tariffs.

Origin strongly recommends that the regulator be required to publish this target for the SRES at the start of the compliance year at the very latest. If this is impractical then the regulator should be required to at least advise on a band that the target will lie in.

Outstanding RET design features

There are a number of outstanding design issues that are yet to be decided upon by the Council of Australian Governments (COAG). As these involve fundamental design features such as the eligibility of existing and new sources we believe that it is important that this is resolved as soon as possible to remove lingering doubt about these aspects of the RET.

Re-stating Origin's position on these issues:

- *Treatment of new waste coal mine generation*: we do not support its inclusion in the RET as it is clearly not renewable generation.
- *Eligibility of heat pumps and new small-scale technologies*: heat pumps should be retained; we are not aware of any new small-scale technologies that should be included in the RET
- *Self-generation exemption provisions*: we support the general policy intent of the current exemptions, with possible broadening of criteria to support new large scale resource projects which use low emission fuel, for example the emerging coal seam gas industry. The exemptions should also be viewed in the context of the RET Emissions Intensive Trade Exposed (EITE) assistance program. We support the Australian Petroleum Production and Exploration Association (APPEA) submission on this issue.
- *Support for small-scale off-grid renewable generation in remote communities*: we support the continuation of the previous Renewable Remote Power Generation Program. It should not be rolled into the RET.

In summary, Origin generally supports the legislation as drafted and believes it should be passed as soon as possible to return confidence to the large scale renewable energy market.

Yours sincerely

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