

Ref: GL:JC:C764447

8 August 2008

The Renewable Energy Sub Group Secretariat
Renewables, Offsets and COAG Branch
Department of Climate Change
GPO Box 854
CANBERRA ACT 2601

BY EMAIL: RET@climatechange.gov.au

Dear Sir/Madam

DESIGN OPTIONS FOR THE EXPANDED NATIONAL RENEWABLE ENERGY TARGET SCHEME

Country Energy welcomes the opportunity to submit a response to the Renewable Energy Sub Group Secretariat as a supporter of the renewable energy industry and a complying participant of the Mandatory Renewable Energy Target scheme since its inception in April 2001.

Country Energy is a leading Australian energy business owned by the NSW Government, with around 4,000 employees serving around 870,000 customers. We operate Australia's largest electricity network across an operating area spanning 95 per cent of New South Wales. We provide reticulated natural gas to around 25,000 customers in southern New South Wales, and water and sewerage services to 10,000 customers in far western New South Wales.

Design options

The *Consultation Paper* suggests two design approaches for the expanded NRET scheme. Country Energy supports Approach 1, Option 2 of the consultation paper.

This is favoured because of the many characteristics that reflect business as usual compared to our current obligations under the Mandatory Renewable Energy Target scheme. The gradual phase in to achieve the 2020 REC target at least cost will maximise the available technologies that can contribute and be used to meet the REC targets and increase the liquidity of RECs in keeping the market price at cost reflective levels.

In addition the 'phase out' option of ramping down the target in the last ten years of the scheme acknowledges that a national Carbon Pollution Reduction Scheme (CPRS) will

have been in place for a decade and will be the dominant force as a carbon market instrument in the energy industry. This also aligns with the conclusion of Dr Ross Garnaut (2008) in that:

... Once a fully operational emission trading scheme is in place, the Mandatory Renewable Energy Target will not address any additional market failures. Its potentially distorting effects can be phased out naturally as the emissions trading scheme takes up the load of encouraging low-emissions technologies.

However, Country Energy does have some concerns about retailers' ability to meet the targets in the early stages of the scheme. The expanded targets are challenging compared to the old MRET and the demand for new renewable capacity will involve major new investments. The supply from existing MRET projects installed before January 2007 is about 6.9 million RECs per annum which is equivalent to about 2,000 MW of capacity (at 40 per cent capacity factor). About 11,400 MW of new capacity is required from January 2007 to achieve zero shortfall in December 2020.

About 1,600 MW of new capacity has been built and committed during 2007 and 2008 and therefore an additional capacity of about 10,000 MW is required by 2020. This is equivalent to building 900 MW per annum over 11 years from 2010 to 2020 (based on an average capacity factor of 40 per cent). This will require capital investment of nearly \$2 billion per annum to 2020 and a total investment of about \$22 billion. The current build program is about 380 MW each year for 2007, 2008 and 2009 which is less than half the level of investment required. The build program will require a significant expansion of the industry and if we are not able to meet these requirements, retailers will be exposed to paying penalties for non-compliance and in doing so undermine the intent of the scheme.

Rationalisation of existing state based schemes

One of the concerns Country Energy had in relation to an expanded NRET was the additional cost burden of multiple state and federal renewable energy target schemes. However, as outlined in the discussion paper, Country Energy supports the consolidation of existing state based schemes and the incorporation of those targets in the expanded NRET. This will streamline the so called 'green tape' of multi-jurisdictional schemes and the price signal associated with developing the renewable energy industry.

Retail price regulation

The proposed start date of the NRET scheme in 2010 is likely to coincide with many factors in NSW that may distort the price signal to price regulated customers. These are customers who remain on regulated prices governed by Independent Pricing and Regulatory Tribunal (IPART) Regulated Retail Pricing Determinations. With a distorted price signal, customers will not adjust their energy consumption to the appropriate cost of their usage. If retailers are not able to fully 'pass through' the NRET cost of compliance, retailers will pay for the cost of the scheme rather than the customer which will undermine the integrity of the scheme.

Underpinning this concern is the proposed extension of the IPART retail pricing regulation until at least 2013 in New South Wales. The NSW Government will introduce the legislative amendments required to extend retail price regulation to 2013 or beyond until they are satisfied that there is sufficient competition in the retail energy market. The issue here is that if IPART does not accurately forecast the wholesale electricity and

green 'pass through' costs, customers will not see the price signal of the NRET scheme. This issue is exacerbated by the many different obligations that are going to coincide with the next determination period. These include:

- Expanded National Renewable Energy Target (NRET)
- Implementation of NSW Energy Efficiency Trading (NEET) scheme
- Implementation of a national Carbon Pollution Reduction Scheme (CPRS)
- The termination of the NSW Electricity Tariff Equalisation Fund (ETEF) which will mean greater retailer exposure to price volatility.

The factors described above mean considerable risk for those retailers required to support price regulated customers. Accordingly Country Energy would encourage the Department of Climate Change to engage with IPART in implementing a solution that meets both jurisdictional requirements to ensure that appropriate price signals can be passed through to price regulated customers.

Scheme review

Country Energy seeks to move forward the proposed review date of 2015 to one year after the commencement of the Carbon Pollution Reduction Scheme (CPRS). The CPRS will have direct interaction with the expanded NRET and an early review may be necessary to ensure both schemes are meeting Australia's policy needs.

If you have any questions in relation to this submission please contact myself on 02 6589 8998, or Gerard Lang on 02 6338 3410.

Yours sincerely

Bill Frewen
Group General Manager External Relations