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COAG Working Group on Climate Change and Water
Design Options for the Expanded National Renewable Energy Target Scheme

The Energy Supply Association of Australia (esaa) welcomes the opportunity to provide comment and feedback to the COAG Working Group on Climate Change and Water, regarding expansion of the national renewable energy target (RET).

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some $121 billion in assets, employ over 40,000 people and contribute $14.5 billion dollars directly to the nation's Gross Domestic Product. The esaa is fuel and technology neutral, and represents businesses that have investments across a wide range of fossil fuel and renewable generation technologies.

The COAG Working Group on Climate Change and Water (Working Group) is scheduled to present to the COAG October meeting a preferred approach to the expanded national RET. Unfortunately, this timeframe requires the Working Group to seek feedback from stakeholders prior to the commissioned economic and electricity market modelling results being released. It is also prior to the finalisation of Australia's Carbon Pollution Reduction Scheme (CPRS), despite the direct interaction between a RET and an emissions trading scheme (ETS) being widely acknowledged.[1] In the absence of these two key inputs, the comments and positions made in this submission should be regarded as preliminary and will need to be reviewed in light of the modelling and final ETS design. Given the high level of interdependency, particularly in the way they will interact with the national energy markets, the Association considers that the expanded national RET and the ETS should, in fact, be co-designed.

Least-cost approach to RET design critical

esaa supports the development of a reliable and sustainable energy supply system, where greenhouse gas emission reductions are achieved at least-cost through rational policy settings and measures that are national, long-term and complementary

[1] See Productivity Commission's "What Role for Polices to Supplement an Emissions Trading Scheme" 22 May 2008, and the Garnaut Climate Change Review Draft Report June 2008.

to competitive market arrangements. This objective is most effectively achieved by implementing an efficient economy-wide national emissions trading scheme.

The Association considers that complementary measures should only be deployed where it can be demonstrated that they are likely to reduce the overall cost to the economy by overcoming a demonstrable market failure. Where they exist, they should be delivered nationally and esaa applauds the commitment by COAG to bring together the existing and planned State and Commonwealth renewable energy targets into a single national target, to be phased out between 2020 and 2030 as the ETS matures.

Currently the mandated generation of renewable energy into the electricity market comes at an additional cost to consumers and is likely do so for some time. A study by ACIL Tasman,[2] commissioned by esaa, found that at 2020 an emission permit price of $\$55/tCO_2e$ did not negate the need for a separate price incentive for renewable energy generation such as Renewable Energy Certificates (RECs). It is critical therefore that the RET is designed in such a way as to minimise any distortion it creates in the electricity market. esaa considers that in determining the optimal model for an expanded national RET, the principles of least-cost and investor certainty should be regarded as paramount.

Additionally, it should be understood that the expanded national RET is an ambitious target. esaa analysis suggests that the additional 35,500 GWh represents over 50% of load growth over the coming decade. Delivering the expanded RET will require the construction of over 8000MW of new renewable generation capacity. Assuming that other promising technologies such as geothermal deliver their predicted potential, more than five times the wind capacity installed in Australia as at 31 December 2007[3] could be required within a decade. If large-scale geothermal isn't developed before 2020 then the target could require considerably more wind generation. Renewable technologies such as geothermal and wind also result in the need for significant new investment in transmission and distribution systems.

When the effects of the expanded national RET are coupled with an ETS, the extent of construction of new generation facilities and increased network investment could be vastly bigger than Australia has ever attempted previously in a decade. At a time when the world is experiencing unprecedented demand for all items of electricity supply equipment and Australia has labour constraints, this build task will at the very least be challenging.

The proposed expanded national RET design should provide the maximum flexibility to allow the market and investors full scope to determine the timing and nature of these developments.

Design Approach One – a lower cost approach

In the absence of the commissioned economic and electricity market modelling, the Association considers that Design Approach One would represent a lower cost approach that also minimises implementation risk. Design Approach One is largely a

[2] ACIL Tasman "The impacts of an ETS on the energy supply industry" commissioned by the esaa, July 2008.
[3] Electricity and Gas Australia 2008, esaa

continuation of many features of the existing Mandatory Renewable Energy Target (MRET). Consistency with the existing MRET, which is an established and well understood scheme, is a highly desirable design feature. In particular, the expanded national RET should feature:

- Unlimited banking of RECs, to broadly deliver the policy objective at least-cost.
- No expiry of project eligibility to create RECs, to encourage all economically feasible projects to come forward.
- A penalty that reflects the difference between the marginal cost of renewable energy and the increased electricity price due to the cost of emissions. As outlined above, the 2020 target could be difficult to achieve and the Government should consider whether this target must be achieved at any cost.
- Phasing out of the targets after 2024 (Option Two in Design Approach One), rather than manipulating the penalty in an attempt to manage cost but maintain the RET.
- Grandfathering provisions to address any disadvantage faced by participants who were initially participants in any other scheme.

The options paper suggests that a review of the scheme's operation and performance could be undertaken in 2015. esaa appreciates the challenges of balancing certainty for the market and flexibility for the policy maker, and on this basis recommends that the scope of the 2015 review be clearly articulated in legislation. In the interests of certainty, the review could be bound to the principle of not placing existing participants at any disadvantage. esaa suggests that the 2015 review be performed in unison with the development and announcement of the next tranche of CPRS gateways (years 2026 to 2030), as currently proposed in the CPRS Green Paper. This would assist policy makers seeking to correct the balance between stimulus for renewable generation and the goal of reducing greenhouse gas emissions from electricity generation at least-cost.

Conclusion

esaa welcomes the creation of a single, national RET. In the absence of quantified analysis and the specific design of the CPRS, esaa considers that the least-cost pursuit of the RET is best addressed primarily by rolling out and expanding the Commonwealth's existing MRET as depicted in Design Approach One.

However, the size of the expanded national RET, combined with pending constraints on greenhouse gas emissions from the energy supply sector, emphasises the importance of considering more broadly the investment challenges for the industry, including the impact on transmission and distribution systems.

Yours sincerely

Brad Page
Chief Executive Officer