Business Council of Australia

submission

Submission to the Expert Panel on the Renewable Energy Target Review

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Working to achieve economic, social and environmental goals that will benefit Australians now and into the future

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The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

The Australian Government is currently undertaking a review of the Renewable Energy Target (RET). It has released the Terms of Reference for the review, commissioned an Expert Panel which has called for submissions, and commissioned ACIL Allen to provide modelling analysis on the RET. This submission is provided in response to those documents.

The BCA supports the range of issues identified in the Terms of Reference for the review of the RET to be assessed against. The BCA encourages the Expert Panel and the government in undertaking the review to give equal weight to the impact of the RET on electricity prices, energy markets, its effectiveness as a climate change mitigation tool, and businesses competitiveness, in addition to assessing the RET against its legislated objectives.

The Renewable Energy Target

The RET was introduced in 2001 under the Renewable Energy (Electricity) Act 2000 (the Act). The Act has three objectives:

1. To encourage the additional generation of electricity from renewable sources.
2. To reduce emissions of greenhouse gases in the electricity sector.
3. To ensure that renewable energy sources are ecologically sustainable.

The RET was later amended "to deliver on the government's commitment that 20 per cent of Australia's electricity supply will come from renewable sources by 2020".[1]

When the initial 20 per cent by 2020 target was translated to a fixed gigawatt-hour (GWh) amount in 2007, the following market expectations were relevant:

- Australia-wide electricity supply of around 300,000 GWh in 2020
- pre-existing renewable generation of 15,000 GWh per year
- Renewable Energy Target of 45,000 GWh per year by 2020.[2]

The target was split to deliver 41,000 GWh through the Large-scale Renewable Energy Target (LRET)[3] and the Small-scale Renewable Energy Scheme (SRES) was expected to contribute between 4,000 to 6,000 GWh of renewable generation to the 2020 target.[4]

With the decline in demand for electricity since the RET was legislated in 2009, the fixed 45,000 GWh target is now expected to represent at least 27 per cent of electricity generation in 2020.[5]

The RET was designed based on a number of expectations, including that demand for electricity was expected to continue to grow, some renewable energy technologies were not expected to be cost competitive with retail electricity prices, and the scheme was expected to operate alongside a price on carbon. Given these three premises no longer hold, the RET should be amended.

1. Second Reading Speech for the Renewable Energy (Electricity) Amendment Bill 2009.
2. Climate Change Authority Renewable Energy Target Review Final Report, 2012.
3. Renewable Energy (Electricity) Act 2000 (Cth).
4. Commonwealth of Australia, 2014, *Renewable Energy Target Review: Expert Panel Call for Submissions*.
5. Deloitte Access Economics modelling on the RET for ACCI, MCA and BCA (forthcoming)

Key points

- What is apparent today is that producing goods and services in Australia has become increasingly expensive relative to other countries. The cost base of Australian business is under continual threat from mounting regulation, comparatively higher labour costs and increasing energy costs. Energy was once one of our great competitive advantages, but the cumulative impact of policies such as the RET, the carbon price, a variety of state-based energy schemes alongside policies that have contributed to rising network costs are eroding the competitiveness of Australian business and weakening the economy.
- It is essential that Australia's energy and climate change policy settings are integrated and designed to meet the challenges facing the Australian economy in a globally competitive trading environment, while minimising cost-of-living pressures for all Australians. An immediate priority in this regard is to amend the RET.
- Recognising the importance of energy to the Australian economy and the need to balance this with Australia's environmental objectives, the Australian Government's approach to energy and climate change policy should be integrated to deliver on the vision of:
  - maximising Australia's competitive advantage in energy through efficient markets
  - driving growth in our energy resource development and exports
  - delivering reliable, efficient and competitively priced energy to households and businesses
  - realising these growth opportunities while meeting best practice environmental standards and managing Australia's greenhouse gas emissions in line with global efforts, at least cost.
- The central objective of an effective climate change mitigation policy is to reduce greenhouse gas emissions at least cost.
- The BCA supports Australia taking action on climate change and accepts the bipartisan commitment to reduce Australia's greenhouse gas emissions by five per cent by 2020 on 2000 levels, and believes this target should be met at least cost to Australian households and business. Compared to other climate change mitigation tools, however, a range of independent analyses shows that the RET is a relatively costly tool to reduce emissions.[6]
  - For example, the Productivity Commission estimates the cost of abatement through the LRET at between $37–$111 per tonne of CO2 and the SRES at between $152–$525.[7]
  - The RET is a relatively expensive form of abatement compared even to the current high carbon price of $24.15 per tonne of CO2, and is significantly more expensive than international permits that currently trade for less than $1 per tonne.
- While the RET has provided for greater investment in some forms of renewable energy technologies, it has a number of implications for the electricity market and other sectors of the economy. In the context of the BCA's vision for an integrated approach to energy and climate change policy, the BCA contends that the RET is an example of poor public policy for the following reasons:
  - It distorts Australia's electricity markets and diminishes the market's ability to deliver efficient outcomes in the long-term interests of consumers in terms of reliability and price. This is because it mandates renewable electricity generation over other sources of electricity generation (including low-emission technology) and does not allow all forms of technology to compete on a level playing field, which leads to higher cost generation outcomes than would otherwise be the case.
  - It adds about 2.8 per cent to typical household electricity bills and between 3.9 to 9.6 per cent for a large business that consumes more than 5 GWh of electricity per annum depending on its eligibility for Partial Exemption Certificates (see Table 1).

6. The Centre for Independent Economics, *The Renewable Energy Target: How It Works and What It Costs*, 'Comparison of the cost of abatement under the RET', November 2013, p. 17.
7. Productivity Commission, *Carbon Emission Policies in Key Economies*, Research Report, 2011.

- For a typical New South Wales household, the Independent Pricing and Regulatory Tribunal (IPART) put the cost of the RET at $107 per annum.[8]
- For a large Australian metals manufacturer this equates to an average annual cost in excess of $5 million (Net Moderately Intensive Partial Exemption Certificates) since the introduction of the SRES in 2011. Whereas for a large aluminium smelter which qualifies for the headline 90 per cent highly emissions-intensive exemption, the net cost of the RET is around $20 million per annum.

Table 1. Net cost of the RET as a proportion of electricity bills, 2013–14

Residential and small business	**2.8 per cent**
Large business (no exemption)	**9.6 per cent**
Large business (moderately emissions-intensive exemption)	**6.2 per cent**
Large business (highly emissions-intensive exemption)	**3.9 per cent**

Source: Synergies Economic Consulting and Roam Consulting analysis commissioned by the BCA (forthcoming). Note: Data based on mainland National Electricity Market (NEM) customers and a large-scale generation certificate price of $40. Large business customers (> 5GWh per annum). Moderately emissions-intensive Partial Exemption Certificate (PEC) equates to 60 per cent of LRET/SRES costs (not MRET), calculated on spot prices determined by the Clean Energy Regulator. Highly emissions-intensive PEC equates to 90 per cent of LRET/SRES costs (not MRET), calculated on spot prices determined by the Clean Energy Regulator.

- The RET is a poor climate change mitigation measure as it reduces greenhouse gas emissions at a high cost of abatement relative to other measures.
- It results in a wealth transfer from households and business electricity consumers and baseload generators to the renewable energy industry because it increases electricity prices to pay for renewable energy and it crowds out baseload generators from the wholesale electricity market when demand for electricity is less than expected.
- It provides an unnecessary subsidy to rooftop solar, which is now at grid parity,[9] meaning electricity produced by rooftop solar is commercially competitive with retail electricity prices in its own right. The RET therefore is no longer required to incentivise the uptake of rooftop solar.

▶ In addition, the RET, in its current form, is no longer relevant to Australia's circumstances. In 2007, when the present design of the 20 per cent RET was conceived, it was done on the basis of a number of expectations that are no longer valid.

- Firstly, the RET was established at a time when Australia's electricity demand was expected to grow in perpetuity and was forecast to reach 300,000 GWh by 2020. It is now forecast to reach only around 230,000 GWh due to a decline in demand for electricity.
  - This means the legislated target is now forecast to see renewable energy represent at least 27 per cent of Australia's electricity generation.[10]
  - In an electricity market that is already oversupplied, there is no economic justification for electricity consumers to pay for additional generation capacity that is not required.
- Secondly, the cost of some renewable energy has declined since the scheme was established and in some cases does not require a subsidy to be commercially deployed.
  - Importantly, even without the RET, renewable energy will continue to be adopted where it is commercially viable against retail electricity prices, and renewable energy will continue to be supported through:

8. IPART, 'The Impact of Green Schemes on a Typical Residential Electricity Retail Bill from 1 July 2013', Fact Sheet.
9. Electricity Supply Association of Australia, *Solar PV Report*, 2014.
10. Deloitte Access Economics modelling on the RET for ACCI, MCA and BCA (forthcoming).

  - GreenPower, is a voluntary government accredited program which offers renewable energy to be purchased by customers willing to pay for it
  - the government's Emissions Reduction Fund, which provides the opportunity to fund renewable energy projects able to deliver cost-competitive greenhouse gas abatement.
- Thirdly, the government has announced that its primary mechanism to drive greenhouse gas abatement is the Emissions Reduction Fund and that the carbon tax will be repealed. The repeal of the carbon tax has implications for the operation of the RET.
  - Under the RET, liable parties have the choice to meet their obligations through either paying the penalty price or buying Renewable Energy Certificates (RECs). Where the carbon price is repealed, the wholesale price of electricity will decrease and renewable energy generators will seek to recover their costs from reduced wholesale margins through the REC mechanism. Where the REC price increases to the level of the penalty price,[11] liable parties will opt to meet their obligations through paying the penalty price rather than buying RECs, thereby increasing the retail price of electricity with no additional renewable energy being built.
  - Unless the target is adjusted downwards, electricity consumers would be paying a higher price for electricity – with no additional renewable energy generation. The alternative would be to increase the penalty price but this too would increase the cost of the RET to consumers.

- Increases in electricity prices caused by the RET add to the cost base of many of Australia's electricity-intensive industries, such as steel manufacturing and aluminium smelting. Australia's historically low electricity prices mean there are many sectors that have built up around what has been one of Australia's previous comparative advantages. Higher electricity prices, however, are eroding the competitive edge once held by these businesses and the RET is a contributing factor towards increases in electricity prices.
  - To reduce the cost pressures on Australia's trade-exposed industries, amendments should be made to the Partial Exemptions Certificate (PEC) regime to ensure the international competitiveness of these sectors.
- In addition, the combination of the above factors and difficult commercial conditions would make it a very challenging and costly task for Australia to build the amount of renewable energy required within the next six years to meet the presently legislated 41,000 GWh LRET.
- Given that investments have now been made under the scheme, and the scheme cannot be removed without stranding assets and creating issues of sovereign risk, the BCA supports smoothly transitioning out of the RET by amending the target and ending the scheme in 2030.
- Accordingly, the BCA supports amending the RET to a true 20 per cent by 2020 target and the government committing to not extending the target once all obligations have been met in 2030. Any amendments considered as part of the review of the RET should not adversely affect investments that have already been made and should be mindful of their impact on investments currently being planned or already subject to approval.
- Our position provides a pragmatic middle ground for amendments to the RET because it would see the RET retained with a reduced target that:
  - will continue to deliver renewable energy investment to 2020 in a way that does not detrimentally impact the efficient operation of electricity markets
  - does not require electricity consumers to pay for additional electricity generation investment beyond what is demanded
  - ensures the benefits of the reduced target are equally distributed amongst business and households.

11. The penalty price is $65 per LREC, but may have an effective maximum price of $93 after taking account of company tax treatment. The penalty price is fixed in nominal terms under the Renewable Energy (Electricity) Large-scale Generation Shortfall Charge) Act 2000 (Cth).

Key recommendations

- The BCA recommends amending the RET to a true 20 per cent by 2020 target based on revised demand forecasts. This should include a commitment not to extend the target once all obligations have been met in 2030.
- The RET as a true 20 per cent target should be reconfigured to:
  - reflect both small and large-scale renewable energy technology contributions to the target
  - ensure the revised electricity demand forecasts to 2020 account for the announced exit of large electricity consumers from the economy and for the continued uptake of rooftop solar
  - discontinue the SRES going forward, noting that rooftop solar will continue to be installed now that rooftop solar is at grid parity
  - expand the assistance to emissions-intensive trade-exposed industries in a way that shares the benefit of the revision of the target between industry and households
  - maintain and expand the self-generation exemption to allow for incidental off-takes that provide community benefits in remote locations under the self-generation exemption
  - should the above recommendations be adopted, this should be the last review of the RET.

Context

It is essential that Australia's energy and climate change policy settings are integrated and designed to meet the challenges facing the Australian economy in a globally competitive trading environment, while minimising cost-of-living pressures for all Australians.

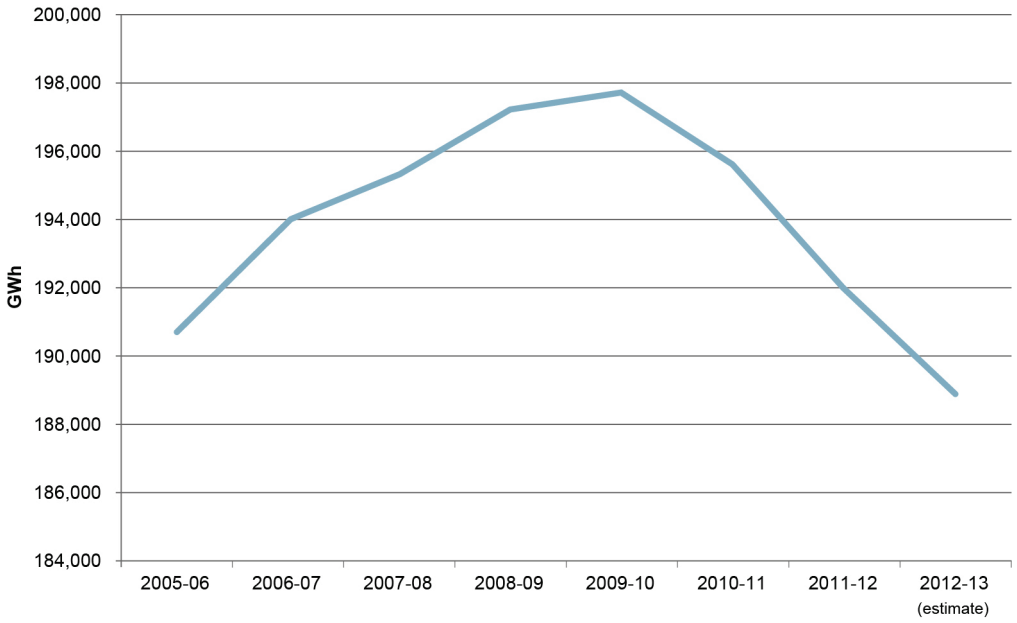
The Australian economy, and the electricity sector, has changed considerably in three key areas since the expanded RET was designed in 2009.

1. Declining demand for electricity

Firstly, demand for electricity has unexpectedly declined. For the first time in the history of the National Electricity Market, demand for electricity has continued on a steady downward trajectory.

As Figure 1 shows, since 2009 average demand for electricity has declined due to a range of factors including declining manufacturing, global economic trends, demand response from increasing electricity prices, energy efficiency measures and the installation of rooftop solar.[12]

Figure 1. Historic average demand in the National Electricity Market



Source: Australian Energy Market Commission (AEMC), *2013 Residential Electricity Price Trends*

This trend looks set to continue as a number of manufacturing operations are scheduled for closure in the coming years and as rooftop solar continues to be installed now that it has reached grid parity.

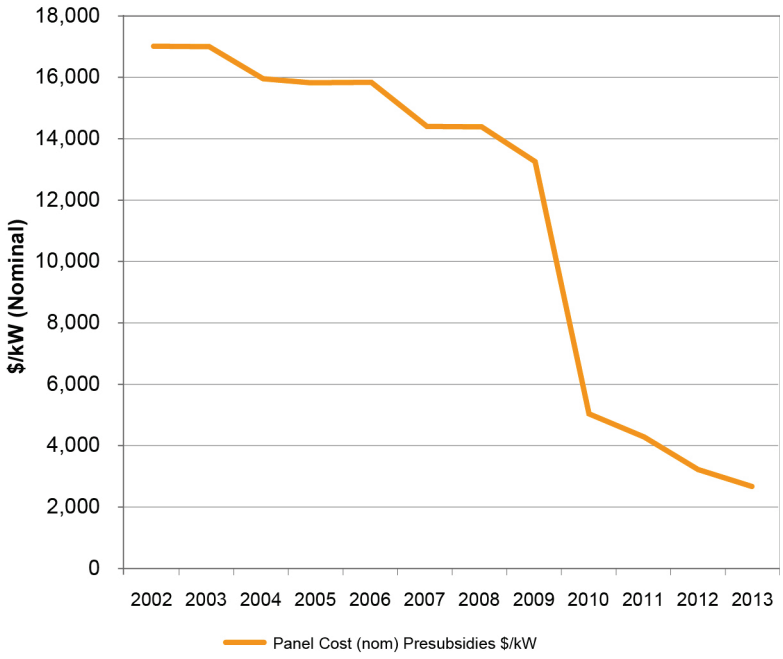
Accordingly, by 2020 demand for electricity is no longer expected to reach 300,000 GWh as was the case when the expanded RET was established. Instead it is expected to only reach 230,000 GWh. This means that the legislated target is now forecast to see renewable energy represent at least 27 per cent of Australia's electricity generation.[13] When the expanded RET was established it was expected to absorb the new electricity generation capacity needed to meet expected growing demand; however, with declining demand it is now acting to crowd out existing generation.

12. Australian Energy Market Operator, *2013 National Electricity Forecasting Report*.
13. Deloitte's modelling on the RET for ACCI, MCA and BCA (forthcoming)

2. Declining cost of renewable energy technology

Secondly, the cost of renewable energy technology has decreased. A key part of the policy rationale behind the RET was to provide financial support to enable the deployment of renewable energy technologies that were not commercially competitive in their own right. Advances in technology, economies of scale and increased global competition have resulted in a 70 per cent reduction in solar panel prices since 2009.[14] The significant decline in the cost of solar systems is further highlighted in Figure 2.

Figure 2: Cost of rooftop solar in Australia



Source: Analysis by Origin Energy Limited contained in its submission to the RET Review, May 2014.

The dramatic decline in the cost of rooftop solar means that it is now at grid parity and offers an economic return to installers that is competitive with retail electricity prices. Therefore, there is little to no policy rationale for government policy to be subsidising technologies that are competitive with retail electricity prices.

3. Repeal of the carbon tax impacts the RET

Thirdly, the government has announced that its primary mechanism to drive greenhouse gas abatement is the Emissions Reduction Fund and that the carbon tax will be repealed. The repeal of the carbon tax will impact on the RET.

Under the RET, liable parties have the choice to meet their obligations through either paying the penalty price or buying Renewable Energy Certificates (RECs). Where the carbon price is repealed, the wholesale price of electricity will decrease and renewable energy generators will seek to recover their costs from reduced wholesale margins through the REC mechanism. Where the REC price increases to the level of the penalty price,[15] liable parties will opt to meet their obligations through paying the penalty price rather than buying RECs, thereby increasing the retail price of electricity with no additional renewable energy being built.

14. QiPower, Historical Solar Panel Cost, viewed 30 May 2014, <http://www.qipower.com.au/technical/solar-pv/>.
15. The penalty price is $65 per LREC, but may have an effective maximum price of $93 after taking account of company tax treatment. The penalty price is fixed in nominal terms under the Renewable Energy (Electricity) Large-scale Generation Shortfall Charge) Act 2000 (Cth).

Unless the target is adjusted downwards, electricity consumers would be paying a higher price for electricity – with no additional renewable energy generation. The alternative would be to increase the penalty price but this too would increase the cost of the RET to consumers.

For these three reasons the BCA contends that the RET as it is currently designed must change and not be extended beyond its obligations out to 2030.

Approach to the review of the Renewable Energy Target

It is important that the review of the RET assesses the scheme's effectiveness against a broader set of considerations than the three legislated objectives of the Renewable Energy (Electricity) Act 2000. In this regard, the BCA supports the range of issues identified in the Terms of Reference of the Review for the RET to be assessed against. The BCA encourages the Expert Panel and the government in undertaking the review to give equal weight to the impact of the RET on electricity prices, energy markets, its effectiveness as a climate change mitigation tool, and businesses competitiveness, in addition to assessing the RET against its legislated objectives.

The government's 2014 *Energy White Paper Issues Paper* outlines that:

- energy policy needs to underpin the day-to-day reliability, longer-term security and the cost of energy in an efficient and competitive market
- priority outcomes for the government include addressing cost-of-living pressures and business competitiveness, with both requiring competitive pricing, productive and efficient use of energy and reform of regulation.[16]

The BCA supports these statements and encourages the government and the Expert Panel to approach the review of the RET in context of the above objectives.

Our position on the RET is guided by our Energy and Climate Change Policy Vision and Principles.

BCA Energy and Climate Change Policy Vision

To provide a stable and predictable environment for investment and business activity, the Australian Government's national energy and climate change policy should deliver on the vision of:

- maximising Australia's competitive advantage in energy through efficient markets
- driving growth in our energy resource development and exports
- delivering reliable, efficient and competitively priced energy to households and businesses
- realising these growth opportunities while meeting best practice environmental standards and managing Australia's greenhouse gas emissions in line with global efforts at least cost.

BCA Energy and Climate Change Policy Principles

1. Energy is most efficiently delivered through well-functioning markets, supported by effective and efficient policy, regulation and processes.
2. The environmentally responsible development of energy resources should be supported by efficient and streamlined energy policies, regulation and processes.
3. Energy policies should:
   - recognise that energy is critical to our economy, and that security of supply should be delivered cost effectively

16. Commonwealth of Australia, *Energy White Paper Terms of Reference*, 2013, viewed 30 May 2014, <http://ewp.industry.gov.au/documents/terms-reference>.

- be stable and predictable to give the market confidence that long-term investment decisions can be made and adequate returns earned
- provide a level playing field for the market to invest and operate within, and they should be technology and fuel neutral
- support market-driven outcomes and timely market responses to changes in demand.

4. Government regulation should be minimal, efficient and justified against objectives.
5. Government interventions should be a last resort, targeted at identified market failures, and designed and implemented with least market distortion.
6. The objectives and principles of energy policy should be recognised in related policy development, such as environmental and greenhouse gas emissions reduction policies.
7. Energy and greenhouse gas emission reduction policies should support Australia's future economic growth and not compromise Australia's global competitiveness.
8. Australia's greenhouse gas emissions reduction measures should be commensurate with global action, broadly based across the economy, and achieve emissions reductions, at least cost.

Within this context, the BCA's submission assesses the effectiveness of the RET against:

- its impact on electricity prices
- its impact on electricity markets
- its effectiveness as a greenhouse gas abatement measure
- the public policy case for the RET.

Implications of the Renewable Energy Target

Impact of the Renewable Energy Target on business and household electricity prices

The RET increases retail electricity prices. As explained in the *Renewable Energy Target Review: Expert Panel Call for Submissions* paper, the RET influences electricity prices by requiring energy retailers to purchase Renewable Energy Certificates (RECs), and the cost of these certificates are passed onto electricity consumers through higher retail electricity prices.

This cost is a wealth transfer from baseload generators, households and businesses to the renewable energy industry.

The RET is estimated to make up about 3 per cent of an average Australian household electricity bill.[17] For a typical New South Wales household, the Independent Pricing and Regulatory Tribunal (IPART) put the cost of the RET at $107 per annum.[18]

Perhaps what is less well understood is the impact of the RET for Australian business. The RET makes up a larger proportion of the overall electricity costs for business because generally businesses use more electricity compared to households.

The BCA commissioned Synergies Economic Consulting and ROAM Consulting to investigate the impact of various green schemes on Australian residential, small business and large business customers (defined as a business that consumes over 5 GWh of electricity per annum). As Figure 3 shows, for a large business without Partial Exemption Certificates[19] (such as office buildings, large commercial outlets, non-trade exposed manufacturing and large dairy farms) the RET accounts for more than 9 per cent of their total electricity costs per annum.[20] This compares with around 3 per

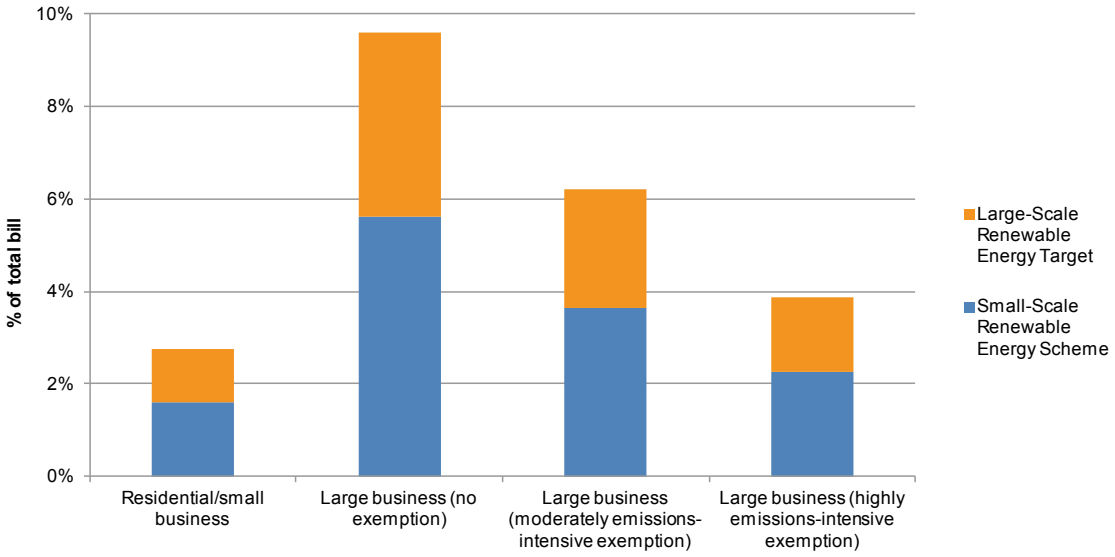
17. AEMC, *Final Report: Possible Future Retail Electricity Price Movements: 1 July 2012 to 30 June 2015*.
18. IPART, 'The Impact of Green Schemes on a Typical Residential Electricity Retail Bill from 1 July 2013', Fact Sheet.
19. A Partial Exemption Certificate exempts emissions-intensive trade-exposed industries from paying a portion of the renewable energy target surcharge embedded in their electricity costs.
20. Synergies Economic Consulting and Roam Consulting analysis commissioned by the BCA (forthcoming).

cent for a small business and a household, 6 per cent for a moderately trade-exposed business and about almost 4 per cent for highly emissions intensive industries.[21]

For a large Australian metals manufacturer this equates to an average annual cost in excess of $5 million (Net Moderately Intensive Partial Exemption Certificates) since the introduction of the SRES in 2011. Whereas for a large aluminium smelter which qualifies for the headline 90 per cent highly emissions-intensive exemption, the net cost of the RET is around $20 million per annum.

For businesses operating in a globally competitive market, these costs are excessive and undermine the ability of Australian businesses to compete against competitors in other countries that don't face the same cost imposts. If the legislated RET were to continue unamended it would continue to add to the cumulative cost base of Australia's energy-intensive businesses and for some sectors, such as aluminium smelting, threaten their financial viability.

Figure 3. Net cost of Renewable Energy Target as a proportion of electricity bills, 2013–14



Source: Synergies Economic Consulting and Roam Consulting analysis commissioned by the BCA (forthcoming). Note: Data based on mainland NEM customers and a large-scale generation certificate price of $40. Large business customers (> 5GWh per annum). Moderately emissions-intensive Partial Exemption Certificate (PEC) equates to 60 per cent of LRET/SRES costs (not MRET), calculated on spot prices determined by Clean Energy Regulator. Highly emissions-intensive PEC equates to 90 per cent of LRET/SRES costs (not MRET), calculated on spot prices determined by the Clean Energy Regulator.

There have been claims by some in the renewable energy industry that the RET works to reduce electricity prices by suppressing the wholesale spot market price. The Australian Energy Market Commission contends that:

> Although the LRET may contribute to low wholesale spot market prices, this does not necessarily translate into lower residential electricity prices. This is because the cost of the renewable energy target, which retailers face directly, is also recovered from consumers via retail electricity prices. In addition, retailers are facing higher costs due to the significant investment in recent years in network infrastructure. Falling demand may also be causing higher average retail prices, as fixed network costs

21. List of PEC eligible industries, Clean Energy Regulator, viewed 30 May 2014, <http://ret.cleanenergyregulator.gov.au/For-Industry/Emissions-Intensive-Trade-Exposed/eligibility>

are recovered from fewer units of consumption. The net effect is that all of these additional costs are reflected in higher retail prices for consumers.[22]

The overall net cost of the RET is to increase electricity prices. Lower demand conditions are decreasing the wholesale spot market price and the RET is adding to this effect; however, this wholesale price suppression is offset by the impact of the cost of RECs, which are passed on to consumers through higher retail electricity prices.

On this basis, the RET is inconsistent with the government's objective to minimise cost-of-living pressures, lower costs for Australian businesses and improve business competitiveness. Accordingly, the RET should be amended to reduce electricity prices and to reduce the cost impost this places on households and business, while continuing to provide an incentive for renewable energy investment to 2020 commensurate with our changed market conditions.

Electricity market impacts

The RET distorts Australia's electricity markets so that the market is no longer able to drive generation investment when it is needed and at lowest cost to the consumer. This distortion may also create risks to reliability of supply.

The NEM was designed as a technology-neutral, energy-only market. The means of exchange and price setting mechanisms in the wholesale market were designed to promote competition, efficient production, investment decisions and risk allocation. This design has served Australia well for over 15 years however, the RET is impacting on the market's ability to continue to deliver on these efficient outcomes.

It is well understood that the NEM is chronically oversupplied as a result of this decline in electricity demand. This oversupply is further exacerbated by the RET, which continues to mandate additional amounts of renewable energy investment into Australia's electricity markets irrespective of whether or not it is needed.

Consumers ultimately pay for this investment through higher electricity prices. As previously discussed, despite the downward pressure these conditions put on the spot price of electricity, this suppression is offset by the cost of RECs that are added to the final retail price of electricity. This puts a net cost impost on electricity consumers. Further, any benefits of the suppression of spot prices are likely to be short lived, should generation capacity exit the market.

By mandating additional renewable generation regardless of demand, the RET is worsening the suppressed wholesale market conditions and is increasing risks to reliability as some incumbent generators are no longer able to return their long-run marginal cost to investors. In these market conditions, some generators have reported delaying plant maintenance to reduce costs at the risk of greater unscheduled outages, which could pose a threat to reliability during peak demand periods.

Despite Australian Energy Market Operator (AEMO) forecasts which estimate no new generation capacity is required in the NEM until the end of this decade,[23] the RET is also building a higher cost and intermittent form of electricity generation capacity than would otherwise be the case. The RET does not present a technology-neutral level playing field for generation to compete in the market because it mandates that renewable energy be built. This means that higher-cost large-scale generation investment (predominately wind generation) is being built over lower-cost forms of generation technology that are available to the market. In any market, these costs are eventually passed on to consumers through higher prices.

The RET was designed to absorb new demand for electricity; however, with depressed demand conditions the RET is reducing the size of the contestable market – that portion of the market where wholesale electricity prices are set by competitive market forces. The inflexibility of the RET

22. AEMC, *2013 Residential Electricity Price Trends*, 2013, p. 30.
23. AEMO, *2013 Electricity Statement of Opportunitie*s, 2013. Medium low reserve deficit is forecast for Queensland in 2019–20.

as a policy tool (with its fixed GWh target) has created a situation where it is undermining the efficient signalling of Australia's electricity markets, which ultimately leads to inefficient investment decisions.

These points highlight the problems associated with the expected outcomes from a policy intervention being dependent on forecasts of the future. When future prices, technology and demand turn out to be different, so do the impacts of the intervention. That is why these decisions are best left to the competitive electricity market, which can more effectively respond to change..

The Renewable Energy Target as a greenhouse gas abatement tool

The BCA supports Australia taking action on climate change by minimising global greenhouse gas emissions in line with global efforts and at least cost.

The BCA accepts the bipartisan commitment to reduce Australia's emissions by five per cent by 2020 on 2000 levels and believes this target should be meet at least cost to Australian households and business.

The RET fails to deliver on this objective. It is an inefficient and expensive mechanism to reduce Australia's greenhouse gas emissions.

The Productivity Commission estimates the cost of abatement through the LRET at between $37–$111 per tonne of CO2 and the SRES at between $152–$525.[24]

This is a relatively expensive form of abatement compared even to the current high carbon price of $24.15 per tonne of CO2, and is significantly more expensive than international permits that currently trade for less than $1 per tonne.

The government's stated objective in the Emissions Reduction Fund Terms of Reference is to "invest in technologies that will reduce our emissions at lowest cost".[25] Given that the RET is an expensive form or abatement, the government should seek to meet the bipartisan commitment to reduce Australia's emissions by five per cent by 2020 on 2000 levels through its primary mechanism the Emissions Reduction Fund.

In doing so, the BCA supports government consideration of the use of international credits as part of its development of the Emissions Reduction Fund, given international emission units currently present the least-cost way of meeting the government's emissions reduction target and would have a much lower impact on business and household costs.

Absence of a clear public policy case for the Renewable Energy Target

A well-rounded energy policy recognises the importance of driving growth in Australia's energy exports, delivering reliable and competitively priced energy to households and businesses, while meeting best practice environmental standards and managing Australia's greenhouse gas emissions in line with global efforts at least cost.

The BCA contends that the rationale that may have previously been used to support the need for the RET is poor or no longer holds.

It is unclear why the renewable energy sector, unlike other areas of the competitive economy, should receive special treatment. In doing so, the RET results in a wealth transfer from households and other sectors in the economy to the renewable energy industry.

The RET was introduced in 2001 under the Renewable Energy (Electricity) Act 2000, which has three objectives:

1. To encourage the additional generation of electricity from renewable sources.
2. To reduce emissions of greenhouse gases in the electricity sector.

24. Productivity Commission, *Carbon Emission Policies in Key Economies*, Research Report, 2011.
25. Commonwealth of Australia, Emissions Reduction Fund Terms of Reference, 2013, viewed 30 May 2014, <http://www.environment.gov.au/topics/cleaner-environment/clean-air/emissions-reduction-fund/terms-reference>.

3. To ensure that renewable energy sources are ecologically sustainable.

Consistent with the BCA's Energy and Climate Change Policy Principles, the BCA questions the public policy case for each of these objectives and the ability of the RET to deliver on these.

1. There is no clear policy rationale for renewable energy (or any energy technology) to be subsidised through higher electricity prices in a competitive electricity market that is designed to deliver least-cost outcomes to consumers. This is inconsistent with a key principle of good energy policy: technology neutrality.

An integrated energy and climate change policy does recognise the need to support the development of all forms of emerging low-emission energy technologies (of which renewable energy is only one form) where the risks are too great for the market to invest on its own. However, this is not facilitated by a mechanism such as the RET, which subsidies deployment of only renewable energy. The government's overarching energy and climate change policy should be open to supporting all forms of low-emission technologies that offer least-cost abatement, and Australia's focus should be on capitalising on our expertise in research and development in this field through public–private partnerships.

2. The objective to reduce greenhouse gas emissions in the electricity sector without reference to its associated costs is ineffectual. There are a range of activities that can reduce greenhouse gas emissions in the electricity sector; the question remains at what cost.

The objective instead should be to reduce Australia's greenhouse gas emissions at least cost without compromising Australia's international competitiveness. As previously discussed, the RET is a high-cost greenhouse gas abatement measure and fails to deliver on the central climate change mitigation policy objective, which is to reduce emissions at lowest possible cost.

3. The BCA questions the merit of "ensuring that renewable energy sources are ecologically sustainable" as a primary objective of the RET due to the complexity of its definition. The Renewable Energy (Electricity) Act 2000 provides the following definition:

   > Ecologically sustainable means that an action is consistent with the following principles of ecologically sustainable development:
   >
   > (a) decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations;
   >
   > (b) if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation;
   >
   > (c) the principle of inter-generational equity, which is that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations;
   >
   > (d) the conservation of biological diversity and ecological integrity should be a fundamental consideration in decision-making;
   >
   > (e) improved valuation, pricing and incentive mechanisms should be promoted.[26]

This definition is too complex, conflicting and open to many interpretations. It would be an unwieldy task for anyone to assess the effectiveness of the RET against the definition.

For the above reasons, the legislated RET objectives are misaligned with the principles of sound energy and climate change policy. For this reason, the BCA does not believe the RET constitutes good public policy. However, given investments have now been made under the scheme, and the scheme cannot be scrapped without stranding assets and creating issues of sovereign risk, the BCA supports smoothly transitioning out of the RET through amending the target and committing to no extension of the scheme beyond 2030 once all obligations have been met.

26. Commonwealth of Australia, Renewable Energy (Electricity) Act 2000.

Amending the Renewable Energy Target

As discussed earlier in this submission, the RET was designed when demand for electricity would continue to grow, some renewable energy technologies were not cost competitive with retail electricity prices, and it was expected to operate alongside a price on carbon. Given these three premises no longer hold, the RET should be changed.

For the above reasons the BCA supports amending the RET to a true 20 per cent by 2020 target, with a commitment not to extend the target once it is reached, and discontinue the Small-scale Renewable Energy Scheme.

In doing so the target should be realigned to reflect:

- revised demand forecasts that account for the exit of large electricity consumers from the economy and for continued uptake of rooftop solar up until 2020
- the original intent of delivering 20 per cent renewable energy by 2020
- small and large-scale renewable energy technologies contribution to the target to date.

Recognising that investments have now been made under the scheme, the scheme cannot be scrapped without stranding assets and creating issues of sovereign risk. Therefore, any amendments to the RET should seek to not adversely affect investments that have already been made and should be mindful of their impact on investments currently being planned or already subject to approval.

Small-scale renewable energy

The SRES incentive scheme should be discontinued. The 4,000 GWh of renewable energy originally intended to be delivered by the SRES has already been exceeded and the cost of the technologies it is designed to support are now price competitive. This nullifies any need to continue the SRES in its present form.

Given these small-scale technologies are now competitive with retail electricity prices, there is little to no reason why government policy should mandate that electricity consumers subsidise this form of technology. We recommend that the SRES be discontinued following an adjustment to a true 20 per cent of renewable energy by 2020 target based on revised demand forecasts.

In the absence of improvements towards more equitable network tariff structures, the continued uptake of small-scale renewable energy generation will worsen the disparity in electricity costs between consumers who have solar and those who do not.

There is an urgent need to discontinue the SRES in its present form, and review existing network tariff structures in the face of rapidly growing deployment of grid-backed-up distributed energy systems, to ensure a more equitable distribution of costs across a diversity of electricity consumers.

Appropriate assistance is provided to emissions-intensive trade-exposed industries

The BCA considers that in moving to a true 20 per cent RET, action be taken to maintain the competitiveness of Australia's trade-exposed industries through amendments to the Partial Exemption Certificate arrangements in a way that does not transfer the burden onto household consumers.

Aluminium smelting is highly electricity-intensive , with electricity making up 30 to 40 per cent of aluminium smelting costs and the RET is adding to these costs. This cost burden comes at a time when the industry is under considerable competitive pressure due to the very low international price for aluminium, compounded by the high value of the Australian dollar. While the industry strives to manage these competitive pressures through cost-reduction strategies; it is vital that appropriate assistance arrangements are in place that do not diminish the competitiveness of Australian aluminium smelters.

Partial Exemption Certificates under the RET only apply to the increase in the target above the original MRET target of 9,500 GWh and a REC price above $40. This means that the effective rate of exemption is considerably less than the headline figures of 60 per cent and 90 per cent respectively.

For the aluminium sector, which qualifies for the headline 90 per cent exemption, the effective rate of exemption has been around 70 per cent. When coupled with the extreme electricity intensity of aluminium smelting this has meant additional cost of between $70 to $80 million a year across the sector.

Accordingly, the government should reduce energy prices for our trade-exposed industries by amendments to the Partial Exemption Certificate regime to ensure the international competitiveness of these sectors.

This should be done in a way that ensures a reasonable balance of the benefit made through the revision of the target is distributed between trade-exposed industries and households. In this way, the RET would continue to provide an incentive for renewable energy investment to 2020 commensurate with our changed market conditions, while providing a saving to households and business through lower electricity prices.

Retain and improve self-generation exemption arrangements

The BCA considers that the self-generation exemptions should be retained, and improved to allow for incidental off-takes which provide community benefits in remote locations.

RET reviews

Under the current legislative arrangements there is a requirement for a review of the RET every two years. There is a risk that the frequency and short time periods between reviews will have an adverse impact on longer-term investment in physical energy infrastructure.

Consideration of the timing of future reviews should take into account both the benefits from reviewing the operation of the scheme and the negative effect on the investment environment that overly frequent reviews can create. Therefore, should the RET be adjusted in line with current market conditions and in accordance with the above recommendations by the BCA, this should be the last review of RET.

Final note on amendments

These changes to the RET will not mean the end of renewable energy uptake across Australia. Small-scale renewable technologies will likely continue to grow even without the support of the RET due to its competitiveness with retail electricity prices, particularly if the cost of rooftop solar continues on its downward trajectory.

GreenPower offers the opportunity for renewable energy to be purchased if customers want to pay for it, and as ageing generation plants retire over time there is the opportunity for new investment in competitive renewable or low-emissions generation to come into the market.

All forms of technology – including renewable energy – should be able to compete in Australia's electricity markets. This requires good public policy that supports competitive (technology-neutral), efficient and well-functioning markets. This is in the interest of electricity consumers and the Australian economy over the long term.

Accordingly, once the obligations under the revised RET have been reached in 2030, the scheme should be discontinued and Australia's electricity markets be allowed to again be the driver of electricity generation investment.

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