



Senate Standing Committees on Economics
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Labor Environment Action Network submission on the *Budget Savings (Omnibus) Bill 2016: ARENA funding*

Summary

- This submission is about funding for the Australian Renewable Energy Agency (ARENA);
- ARENA and the Clean Energy Finance Corporation (CEFC) have distinct and important functions;
- The Treasurer's reference to Labor's election policy forward estimates as justifying the Government's proposed cuts to ARENA is misleading;
- Solar thermal power is promising but appears to require continuing grant support, not just loans; and
- Consistency with the policy of the 2014-15 Budget is not a reason to pass the Bill.

The Labor Environment Action Network submits that the Committee should recommend:

- That reductions proposed to be made by the Bill to funding for the Australian Renewable Energy Agency (ARENA) should not proceed; and
- That if reductions in funding for ARENA are nonetheless made, they should be limited to ensure that ARENA retains a substantial grants function.

About the Labor Environment Action Network

The Labor Environment Action Network (LEAN) is a grassroots network of Australian Labor Party members and supporters concerned to see effective action on climate change and other environmental issues. LEAN works principally within the structures and processes of the Australian Labor Party to advocate for and support effective policy

on climate and environment, but is making this submission to the Committee due to the importance and urgency of the issues presented.

This submission is about funding for the Australian Renewable Energy Agency

LEAN makes this submission regarding budgetary savings proposed to be made by the Bill regarding funding for grants by the Australian Renewable Energy Agency.

As noted in the Explanatory Memorandum, the Bill proposes reductions in ARENA funding totalling \$1.0103 billion over financial years 2017-18 to 2019-20.

Further, as confirmed in the Explanatory Memorandum, the Bill seeks to realise ongoing budgetary savings from ARENA contained in the 2014-15 Budget - which as acknowledged by the Explanatory Memorandum have previously been rejected by the Senate. The reductions scheduled for ARENA funding in 2020-21 and 2021-22 take overall reductions in funding to \$1.3 billion

Although indicating that the Government intends ARENA to work with the Clean Energy Finance Corporation on a “new” Clean Energy Innovation Fund, the Explanatory Memorandum acknowledges that funding for this fund “will be made available from within the CEFC’s existing appropriation”.

Use of existing funds does not constitute a new fund.

ARENA and the CEFC have distinct important functions

The Explanatory Memorandum correctly notes that:

The Australian Renewable Energy Agency (ARENA), as established by the Australian Renewable Energy Agency Act 2011 (ARENA Act), has the dual objectives of improving the affordability of renewable energy and increasing supply of renewable energy in Australia. Its legislated functions, as provided in section 8 of the ARENA Act, are primarily to provide financial assistance for research into, and development and deployment of, renewable energy technologies, and to engage in knowledge sharing in relation to the same.

The CEFC also promotes development and deployment of renewable energy technologies, but through investment rather than assistance. It is required to generate, and does generate, positive returns to the Budget through its investment strategies. Self-evidently, this means the CEFC focuses on projects which are appropriate and ready for commercialisation.

As explained by Dr Andrew Leigh (House of Representatives, 1 November 2011):

ARENA encourages research and development of technologies. The Clean Energy Finance Corporation will then provide leverage for private investment in the commercialisation of clean energy technologies.

In addition to this pre-commercial role, ARENA grants also support non-commercial projects in the public interest. These projects have ranged from support for community level deployment of renewable energy, to projects enabling efficient management of the National Electricity Market.

Examples of ARENA funded projects

The examples provided below refer only to completed projects. ARENA has an even wider range of current projects indicating the potential and importance of its grant funding role. Details of all projects (completed and current) are available at <http://arena.gov.au/projects/>.

Solar energy integration in electricity networks: ARENA funded development of a solar energy output forecasting system to enable effective management by the Australian Energy Market Operator of solar energy within the National Energy Market. ARENA has also funded several other projects on integration of solar energy and distributed energy generation within electricity grids. Clearly this public good work is a critical part of Australia's transition to clean energy and is not work of a kind that any energy generator or other commercial party could be expected to provide.

Solar thermal generation and relieving network capacity constraints: ARENA funded research has demonstrated the ability of solar thermal generation and storage to relieve electricity network capacity constraints - so as to moderate or avoid the need for expensive network upgrades and relieve pressure on power prices for industry and households.

Renewable energy in remote communities: ARENA has funded projects to assist deployment of renewable energy in remote off-grid communities where displacement of diesel generation offers not only emissions reduction but significant reductions in cost of living - particularly significant for economically disadvantaged communities.

Biofuels: Obviously all fuel combustion involves some production of greenhouse gases - notably NO_x from the nitrogen in the atmosphere. However, biofuels offer significant emissions reductions and appear to provide a critical part of Australia's emissions

reduction pathway, in particular for those industries where zero emissions energy is not ready to step up or is not readily foreseeable. Substitution of biofuels for oil also offers obvious gains for Australia in energy security. ARENA has funded a range of biofuels research and development projects including regarding sustainable aviation fuel and biofuels for maritime applications (transport and naval).

Wave energy: ARENA has provided part funding for wave energy projects including the Carnegie project in Western Australia to power HMAS Stirling, the Australian Navy's largest base. Energy security for defence facilities is critical to national security, a fact recognised by the United States Department of Defence and other allied authorities.

Solar resource mapping: ARENA and CSIRO have partnered to produce Australia's first dataset of solar radiation to guide planning of large scale solar installations. Clearly this is the kind of fundamental work which is essential for Australia's transition to clean energy.

Solar energy research: ARENA has supported Australia's world leading solar energy science and engineering researchers in a dazzling array of projects partnering with private industry, the CSIRO and universities, including

- Integration of solar cells with roofing materials
- Improved materials, manufacturing methods and performance for printed solar cells
- Monitoring and inspection systems for solar power cell performance - including to enhance predictability for consumers and investors
- Projects on performance research and materials and systems development for concentrated solar thermal power generation including systems specifically focussed on industrial users
- Multiple projects to increase efficiency and decrease cost of solar photovoltaic cells. For example, ARENA contributed \$4.4million of the \$15.3 million cost of a successful project with University of NSW to bring commercial solar photovoltaic cell efficiency closer to the world record performance achieved by UNSW in laboratory conditions.

This brief summary of completed ARENA projects in our view more than demonstrates that ARENA is fulfilling an essential mission and should be given ongoing support by the Parliament.

The Treasurer's reference to Labor's election policy forward estimates as justifying the Government's proposed cuts to ARENA is misleading

The Treasurer's Second Reading Speech does not attempt to provide any economic, environmental or social policy justification for reductions in funding for ARENA, beyond

the statement that “these measures were included in Labor's forward estimates, which they took to the election”.

LEAN submits that this statement is seriously misleading, in that it fails to acknowledge:

- Provision in Labor’s forward estimates for \$300 million funding through ARENA to support a grants fund specifically in relation to solar thermal projects;
- Location by Labor of its budget position regarding ARENA within a wider suite of measures regarding renewable energy and climate action, which are not provided for within the present Bill or other Government commitments or announcements and indeed in most cases have been specifically rejected by the Government.

Labor’s election policy included

- A target of at least 50% of Australia’s electricity to come from renewable energy by 2030. Adoption of such a target by the Australian Government would in itself be expected to assist in providing a more positive investment environment for renewable energy as well as guiding development of more specific policies to support renewable energy research and deployment. It has however been rejected by the present Prime Minister as “reckless”.
- Commitment to development of an electricity modernisation plan to achieve this objective
- Introduction of an emissions trading scheme for the electricity sector, and a separate emissions trading scheme for other areas of industry. The Climate Change Authority in its August 2016 report has similarly recommended introduction of an emissions trading scheme for the electricity sector, and a separate emissions trading scheme for other areas of industry. These schemes would by design have the effect of improving the relative price of renewable energy technologies. As well as attracting additional investment into existing commercial projects, this would be expected to attract additional investment into research and development, and render a wider range of projects suitable for investment based approaches (including with CEFC involvement) rather than necessarily requiring the same level of ARENA style grant support which would otherwise be required. The Government has however already indicated it will not be implementing the Climate Change Authority recommendation for two emissions trading schemes.
- Adoption of a greenhouse gas emissions reduction target for Australia of 45% on 2005 levels by 2030, within the range recommended by the Climate Change Authority as representing Australia’s fair share of internationally agreed efforts to keep global warming under 2 degrees above pre-industrial levels. This target would provide an important reference point for proposed emissions trading schemes (the basis for the “cap” in cap and trade) as well as for other policies supporting development and deployment of renewable energy. The present

Government has however refused to adopt an emissions reduction target within the range recommended by the Climate Change Authority, adopting instead a markedly less ambitious target of 26 to 28 percent emissions reductions on 2005 levels.

- Funding of \$98.7 million for a Community Power Network which would resource projects to support deployment of renewable energy at community level and would also facilitate access to renewable energy for people otherwise facing particular barriers including renters, apartment dwellers and low income people. As noted earlier in this submission, this is an area where ARENA grants have also had a role.
- Savings through cancellation of funding provided for the Government's "Direct Action" program, which the present Prime Minister has previously and correctly described as a figleaf designed to conceal a determination to do nothing.

In the absence of acceptance and implementation of the raft of policies on renewable energy which the Australian Labor Party took to the 2016 federal election, it is misleading to present to the Parliament Labor's forward estimates as justification for the cuts to ARENA's budget proposed in the Bill. Moreover, Labor's election commitments included further consultation with ARENA once in government on grant funding needs and priorities beyond those identified in election policy forward estimates.

Solar thermal power is promising but appears to require continuing grant support, not just loans

While the Government has supported provision of loan finance for solar thermal projects, this is not a substitute for provision of grant funding through ARENA. Solar thermal projects in Australia show great potential - due to the quality of both the solar resource and the scientific and engineering resources Australia has available and the capacity of solar thermal projects to store energy and provide fully dispatchable power. However LEAN's understanding is that in Australia these projects remain at a pre-commercial stage and require continuing grant support of the kind appropriately delivered by ARENA.

Consistency with the policy of the 2014-15 Budget is not a reason to pass the Bill

The Explanatory Memorandum acknowledges that

Realisation of financial savings from ARENA has been consistent Government policy since it was announced in the 2014-15 Budget.

LEAN submits that consistency with this element of the 2014-15 Budget is a reason for the Senate to reject rather than pass the measure.

The Senate has previously recognised that dismantling ARENA is a form of economic “cutting off one’s nose to spite one’s face”. The key to effective, medium and long term budget repair is to invest in the kind of economic growth that can reduce costs of energy in the economy, increase Australia’s technological know-how and expertise, boost export revenues, improve economic productivity, and grow employment.

ARENA is an effective vehicle for investment that generates the kinds of economic growth that Australia needs. Reducing its funding is thus likely to cost the economy and the cause of budget repair.

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