

GLEN WRIGHT

SUBMISSION TO THE CCA

RET REVIEW

I appreciate the opportunity to provide input to the Climate Change Authority's (CCA) review of the Renewable Energy Target (RET), and thank the CCA for kindly extending the deadline for making a submission to this consultation.

As I do not have the capacity to provide a detailed response to each question in the Issues Paper, I set out a number of general comments in relation to the RET below. In summary, the RET is a crucial part of Australia's transition to a clean energy future, and should be maintained, supported, and further expanded.

AUSTRALIA'S ENERGY FUTURE

Australia is one of the most energy- and carbon-intensive energy nations in the world, with a high per capita energy use, fuelled almost entirely by large-scale, centralised and polluting coal-fired generators. We are also a lucky country, with strong solar and wind resources, and potential for using emerging renewable resources, such as wave and tidal energy.

However, excellent resources are no use without government leadership, backed up by strong supporting policy and regulatory frameworks. Slowly but surely, Australia has been catching up, and the Australian Renewable Energy Agency (ARENA), the Clean Energy Finance Corporation (CEFC), and the RET can provide the financing and frameworks needed to transition to a clean energy future.

THE RET

Australians, concerned about high electricity prices resulting from an out dated energy model, and concerned about the environmental impacts of this model, are relying on these policy frameworks to drive the transition to a modern energy system. Unfortunately, the RET is under constant attack from industry groups and energy retailers, protective of the traditional energy paradigm and acting in their own self-interest.

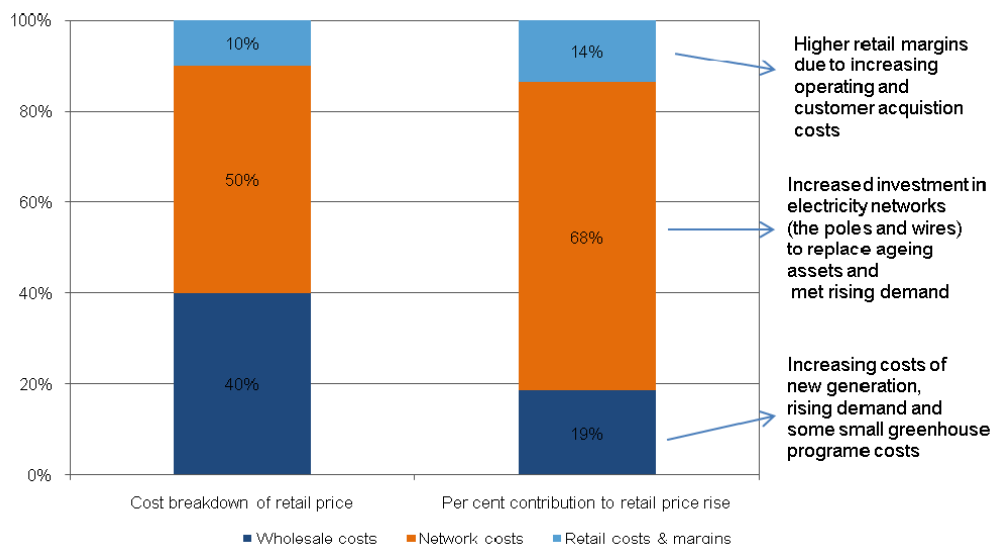
The RET is the foundation of Australia's policy for renewables and is essential because renewables:

1. Are key to Australia's response to climate change.
2. Can play a part in decentralising our energy system, reducing energy prices by:
 - a. providing electricity directly; and
 - b. reducing network investment, the main driver of soaring prices; and
 - c. lowering wholesale electricity prices.
3. Lessen our reliance on commodities such as gas: increasing demand from our rapidly growing neighbours is pushing up domestic prices.

The RET has demonstrated its capacity to drive the growth of large- and small-scale in Australia, and the extent to which it will continue to be successful is largely a function of the willingness of policymakers to allow the RET to stabilise, continue, and ultimately achieve its objective.

COSTS/BENEFITS TO CONSUMERS

The cost of the RET on electricity consumers is small. While the RET has been the target of strong rhetoric, in reality, it is increasing network costs that are responsible for increasing electricity prices.



Source: Garnaut (2011)¹

Modelling undertaken on behalf of the Government suggests that the RET will have a limited impact on retail prices,² while South Australia, with 58% of its energy coming from less costly wind generators, enjoys "not just by far the cleanest energy in the country, but also the cheapest, with average prices over the day at \$43/MWh, compared to more than \$52/MWh for NSW".³

Renewables bring a number of benefits, in addition to exerting downward pressure on prices, including job creation, reduced capital expenditure on gas-fired peaking generation and reduced greenhouse gas emissions.

THE MERIT ORDER EFFECT

The merit order is the method used to rank the available sources of energy in the National Electricity Market. Generators are ranked in ascending order according to short-run marginal costs of production, such that those with the lowest marginal costs are the first to be brought online to meet demand. Increasing the amount of renewable energy lowers the average price of electricity because of the merit order effect, whereby cheap generation capacity from renewables displaces more costly generation, particularly at peak times where the displaced generation would have been from expensive gas-fired peaking plants.⁴

I specifically mention the merit order effect because it has been little studied in Australia, but has been pronounced in Germany, where it has essentially covered the costs of their extensive feed-in tariffs.

¹ Garnaut, R. (2011). Transforming the electricity sector.

² See <http://www.climatechange.gov.au/en/government/initiatives/renewable-target/~media/publications/renewable-energy/mma-ret-report-pdf.pdf>.

³ 'Wind accounts for 58% of energy use in South Australia', RenewEconomy, 6 September 2012.

⁴ See <http://reneweconomy.com.au/2012/the-merit-order-effect-actually-its-a-good-thing-84129>.

IMPACT OF THE RET REVIEW

The RET has undergone regular and extensive review since its inception, and the wide breadth of the current review, rather than confining the review largely to administrative matters, is likely to be unsettling for investors. The RET is a young scheme, having only been legislated in 2009, and extended in 2010, with 18 years left to run. A wholesale review of the RET at the present time appears to be premature and potentially risky.

I am concerned that the RET will be plagued with the some problems as other renewables policies in Australia, particularly the various state-based feed-in tariff schemes, where constant changes and policy uncertainty has completely destabilised industry and left feed-in tariff policy in a state of disarray.

WEAKENING THE RET

Weakening the RET would undermine market stability and investor confidence. The RET should be remain fixed and stable to maximise investment confidence, and should grow over time to ensure that we are internationally competitive and can make a rapid transition to a post-carbon economy.

I would suggest that the RET should remain fixed until 2020, increasing to at least 50% by 2030. This would allow a staged transition by laying the foundations from now until 2020, subsequently incentivising project development, investment, and long-term grid-planning, with a final aggressive push to reach the ultimate goal of 100% renewable energy.

THE 20% TARGET

While it seems likely that the RET will lead to renewable energy exceeding 20% of the electricity market, the intent has always been for renewables to contribute *at least* 20%, not *no more than* 20%. I am concerned that this perception will limit Australia's ambitiousness in relation to renewables.

On the other hand, I am reassured that the issues paper makes clear that the 20% is largely shorthand used to communicate the scale of the RE. Likewise, I am pleased that the Issues Paper considers whether the RET should be increased to account for additional generation from CEFC-funded projects: this would ensure genuine additionality and I support this proposal.

THE RET AND THE CARBON PRICE

The carbon price is insufficient to drive investment in renewables absent the RET, and it was not meant to serve this objective. The Government's own position on this, which I support, is as follows:

The Renewable Energy Target (RET) and the carbon price are both market mechanisms. They are designed to work together to ensure Australia meets its targets for deployment of renewable energy at the lowest economic cost. Put simply, a carbon price without a RET means Australia would not achieve its goal of having 20 per cent of electricity supply coming from renewable sources by 2020. And a RET without a carbon price, would increase the economic cost of achieving that goal.⁵

⁵ <http://www.cleanenergyfuture.gov.au/question-and-answer/what-is-the-relationship-between-the-carbon-price-and-renewable-energy-target-ret/>