

20 February 2009

The Director  
Renewable Electricity Markets Team  
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**Renewable Energy (Electricity) Amendment Bill 2008: Exposure Draft**

Dear Sir/Madam

The Minerals Council of Australia welcomes this opportunity to comment on the exposure draft of the above legislation. The MCA represents Australia's exploration, mining and minerals processing industry, nationally and internationally, in its contribution to sustainable development and society. MCA member companies produce more than 85 per cent of Australia's annual mineral output.

Australia's minerals sector is both a significant producer of energy resources and a large scale consumer of electricity consuming approximately 476 petajoules (PJ) of gross energy in 2006/07. Over 92 per cent of this gross energy requirement was derived from natural gas, diesel and electricity sources. It is also important to note that Australia's coal sector has committed \$1 billion to the development and deployment of low emissions technologies including carbon capture and storage.

This submission has two main elements:

- the MCA's broad concerns with the mandatory Renewable Energy Target;
- specific comments on elements of the above legislation.

**1. *Five fundamental concerns with the Renewable Energy Target***

The MCA opposes the expansion of a mandatory Renewable Energy Target for 5 reasons including that it will:

- distort the operation of a well-designed emissions trading scheme;
- achieve no additional abatement;
- raise electricity costs;
- have a negative effect on jobs in the overall economy;
- exacerbate concerns about the reliable and uninterrupted supply of energy.

First, the 20 per cent Renewable Energy Target threatens to contradict, distort and complicate the operation and purpose of the centrepiece of the Government's domestic policy response to climate change, namely the development of an emissions trading scheme. While the emissions trading scheme is technology-neutral in seeking to reduce emissions at least cost, the MRET will require the deployment of particular (and in many cases) more expensive renewable energy technologies. In the case of the MRET, the imperative is not lower emissions, but the expanded deployment of a particular sub-set of energy technologies.

These competing objectives will have real and adverse consequences. The final report of the Garnaut Review noted:

Implementing the expanded MRET alongside the emission trading scheme means that these two policy instruments with their differing objectives will be interacting in the electricity market. This clash of objectives will potentially be detrimental to electricity users (households and businesses) and electricity producers (incumbent and new providers).<sup>1</sup>

In 2008, the then head of the Strategic Review of the Australian Government's Climate Change Programs, Roger Wilkins highlighted how specific energy targets will distort the effective operation of an emissions trading scheme:

If you set up an emissions trading scheme and you want it to produce the lowest cost reductions, then you should generally avoid distorting the market by requiring the use of certain sorts of technology.<sup>2</sup>

Second, a mandatory Renewable Energy Target will achieve no additional abatement of greenhouse gas emissions. As the Productivity Commission has indicated:

An MRET operating in conjunction with an ETS would not encourage any additional abatement, but still raise additional administration and monitoring costs.<sup>3</sup>

Third, while achieving no additional emissions abatement, and increasing administration costs, the RET will also substantially raise the costs of electricity to business and householders. This has been confirmed by an array of analysis including the following:

- the Garnaut Review estimated that the additional costs imposed by the scheme will be around \$750 million to \$1.1 billion per annum by 2020;<sup>4</sup>
- analysis by CRA International estimated that an MRET would cost Australia \$1.8 billion more in 2020 than a pure emissions trading scheme in terms of economic welfare (GNP) losses. CRA International estimated that electricity prices will rise at least 6 per cent more than would be the case of an ETS alone<sup>5</sup>;
- modelling undertaken by McLennan Magasanik Associates (MMA) for the Department of Climate Change has also highlighted the costs resulting from the proposed RET.<sup>6</sup> Analysis by the Australian Industry Greenhouse Network of data contained in the MMA report suggests that the RET could reduce the international competitiveness of trade exposed mining and manufacturing industries by \$340 million in 2010 and \$700 million in 2020;
- analysis conducted by COAG itself has identified the additional costs on electricity imposed by mandatory renewable energy targets. In its 2002 study, *Energy Market Review: Towards a Truly National and Efficient Energy Market*, COAG estimated that the annual electricity cost of the current MRET scheme in 2010 at between \$323 million and \$543 million;<sup>7</sup>

The Productivity Commission has also pointed to the additional cost impact that the mandatory Renewable Energy Target will impose:

To the extent that the MRET is binding it would constrain how emissions reductions are achieved – electricity prices would be higher than otherwise and market co-ordination about the appropriate time to introduce low emissions energy technologies would be overridden;<sup>8</sup>

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<sup>1</sup> The Garnaut Climate Change Review, *Final Report*, Commonwealth of Australia. 2008. p.356

<sup>2</sup> quoted in 'Pressure builds for renewing of energy targets', *The Weekend Australian*, May 24-25, 2008, p1

<sup>3</sup> Productivity Commission, 'What role for policies to supplement an Emissions Trading Scheme?', *Submission to the Garnaut Climate Change Review*, May 2008p.xvii.

<sup>4</sup> Garnaut Review, *op cit*, p356

<sup>5</sup> CRA International, 'Implications of a 20 per cent renewable energy target for electricity generation', *Report prepared for APPEA*, November 2007, p.4.

<sup>6</sup> McLellan Magasanik Associates, 'Benefits and Costs of the Expanded Renewable Energy Target', *Report to the Department of Climate Change*, January 2009.

<sup>7</sup> Cited in Productivity Commission, *op cit*.

<sup>8</sup> Productivity Commission, 'What Role for Policies to Supplement an Emissions Trading Scheme?' *Submission to the Garnaut Climate Change Review*, 2008. p.xvii.

Fourth, the MRET will have a net negative impact on employment. The CRA International report cited above estimates that the MRET will result in the loss of an additional 3600 full-time equivalent jobs (FTE) in 2020:

Contrary to the popularly held belief that such mandated targets generate jobs, the overall effect on the economy is the generation of less jobs than otherwise would have occurred and a loss of output in the economy as a whole compared to the outcome with a well-designed emissions trading scheme.<sup>9</sup>

In similar vein, Roger Wilkins has argued that there are better ways to support particular industry sectors like the renewable energy sector.

There are forms of industry assistance that will distort the market and forms of industry assistance that will not. If governments want to assist industry, they should opt for the latter. Otherwise, they endanger the integrity of and confidence in the market.<sup>10</sup>

The MCA agrees that there are more efficient and less distortionary ways to promote investment in renewable energy technologies. Options worthy of consideration include incentives, including taxation incentives, for investment in low emissions technology research, development demonstration and deployment. The Productivity Commission has highlighted the advantages of such policy approaches:

Advantages of investment support policies are that they can be technology neutral and that investing firms can be made to share the risk, leading to self-selection of viable projects.<sup>11</sup>

Finally, the distortions to the stable energy market caused by the competing imperatives of the Carbon Pollution Reduction Scheme PRS and RET will add to existing concerns about potential disruptions to the reliable supply of energy over the next decade. In assessing the impact of these policy changes on electricity markets, the Australian Energy Market Commission (AEMC) recently stated:

If the [power generation] plant type has only a short term future as a result of the CPRS (e.g. it is brown coal) then investment may not be forthcoming to restore it to service.<sup>12</sup>

The AEMC added:

The expanded RET will, in the medium term, result in significant increases in installed volumes of wind generation capacity. This type of generation technology delivers energy but not reliable capacity...It cannot be relied upon to be available at peak times.<sup>13</sup>

In summary, the MCA opposes the expansion of current arrangements to a mandatory RET.

## **2. Specific comments on with the Renewable Energy (Electricity) Amendment Bill 2008**

This submission will focus on two aspects of the legislation including:

- the level of the compliance mechanism or shortfall charge
- eligible sources.

### **Shortfall Charge**

The exposure draft of the legislation does not nominate a particular level for the shortfall charge, which operates as a cap on the price of Renewable Energy Certificates. Instead the draft proposes

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<sup>9</sup> CRA International, *op cit*, p.4.

<sup>10</sup> quoted in 'Pressure builds for renewing of energy targets', *The Weekend Australian*, May 24-25, 2008, p.1.

<sup>11</sup> Productivity Commission, *op cit*, p.24.

<sup>12</sup> Australian Energy Market Commission, 'Review of Energy Market Frameworks in light of Climate Change Policies', *First Interim Report*, 23 December 2008.

<sup>13</sup> *Ibid*.

that the penalty will be 'set at a level marginally above the projected peak REC price', with the specific level 'to be set prior to COAG consideration of the final design'.

A number of key considerations should influence the final decision on the shortfall charge.

First, given the considerable practical uncertainties there must be a realistic cap on the cost of the scheme to ensure that cost impact does not increase without limit. The economic analyses cited above have demonstrated the substantial potential cost impact of the RET. A realistic shortfall charge is one (partial) way of imposing downward pressure on the overall cost impact of the RET.

Second, the level of the shortfall charge should take into account the importance of minimising the distortionary impact of the RET on the functioning of the ETS. In the MCA's view, the ETS must be the primary determinant of industry and household investment decisions and energy choices, not least because its focus is on least cost abatement rather than the deployment of a particular sub-set of technologies.

The interaction between the ETS and RET REC prices is therefore critical. For its part, the Garnaut Review argued that the shortfall charge should be kept low to reduce these distortions. As the ETS permit price grows above this level, the Garnaut Review noted that:

the emissions trading scheme would come to dominate investment decisions and the economic effects of the MRET would be subsumed within the emissions trading scheme

The White Paper on the CPRS has proposed an initial price cap for the CPRS of \$40 per tonne of CO<sub>2</sub>, increasing by 5 per cent in real terms every year. To ensure that the ETS is the primary determinant of industrial and consumer behaviour, the shortfall charge should be set *below* this level. Furthermore, to ensure that the ETS remains the principal influence on investment in low emissions technologies, the shortfall charge should be reduced over time.

#### *Eligible sources*

The legislation proposes the same eligibility criteria as set out in the existing legislation. In other words, eligible energy sources will remain restricted to selected renewable technologies.

As noted above, MCA opposes the expansion of current arrangements to a mandatory RET. In the event however that the Government decides to expand the Renewable Energy Target to 20 per cent, it should be revised to a Clean Energy Target that does not grant preferment to one low emissions technology (renewables) ahead of others (including low emissions coal technologies).

If there is to be a mandatory low emissions target, it should not discriminate - or grant preferment - between technologies with the same or similar environmental impact. It makes no sense to exclude the development of carbon capture and storage of CO<sub>2</sub> emissions - a technology in which Australia has both a demonstrated expertise and a comparative advantage - from such a target. It is clear that a more broad-ranging definition of clean energy should form the basis for any mandatory energy targets by 2020.

Please do not hesitate to contact me if you have any queries relating to the above.

Yours sincerely



Brendan Pearson  
Deputy to Chief Executive