



**The Renewable Energy Target (RET):
in the long-term interests of consumers**

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Introduction

The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, works co-operatively with other organisations to advocate for individuals and groups affected. PIAC seeks to:

- expose and redress unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate on issues affecting legal and democratic rights;
- promote the development of law that reflects the public interest;
- develop and assist community organisations with a public interest focus to pursue the interests of the communities they represent;
- develop models to respond to unmet legal need; and
- maintain an effective and sustainable organisation.

Established in July 1982 as an initiative of the (then) Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Services Program. PIAC also receives funding from NSW Trade & Investment for its work on energy and water, and from Allens for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumers' Advocacy Program

This program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the program is to develop policy and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW;
- St Vincent de Paul (NSW);
- Ethnic Communities Council NSW;
- Rural and remote consumers;
- Retirement Villages Residents Association;
- Physical Disability Council NSW; and
- Affiliated Residential Park Residents Association.

1. The RET Review

PIAC welcomes the opportunity to provide input into the Australian Government's Review of the *Renewable Energy (Electricity) Act 2000* (the Act) and related primary and subordinate legislation, and the Renewable Energy Target (RET) scheme constituted by these instruments. PIAC represents residential consumers of electricity and natural gas in New South Wales, and engages in issues related to the supply of energy to these consumers.

The RET has been a successful policy for encouraging development of Australia's renewable energy industry. The Call for Submissions to the Review of the Renewable Energy Target notes that about \$18 billion of investment has been stimulated by the RET, resulting in 24,000 direct jobs.¹ PIAC takes the view that the RET has also helped reduce the carbon intensity of the Australian electricity sector and, by extension, the Australian economy and so it has helped position the Australian economy for the 21st century. The regulatory certainty the 2020 RET has provided has been a key factor in supporting significant investment in renewable energy. If the outcome of this review were to undermine the RET, that would create significant risks for the Australian economy and undermine business confidence in any decisions governments make with regard to energy and climate change policy.

The Terms of Reference and questions posed in the Call for Submissions suggest that the value of the RET to Australia is under question and options for significant change are being sought. PIAC's view is that the RET is in the long-term interests of consumers and that there is currently no need for changes to the RET, especially so soon after the Climate Change Authority's (CCA's) comprehensive review of the RET in 2012.² PIAC is concerned that a new review so soon after the CCA's review (and in light of CCA's recommendation to defer any review to 2016) is not a worthwhile use of government or consumer advocacy resources.

This submission seeks to outline the rationale behind PIAC's view of the benefits of the RET and the importance of policy consistency and certainty for the RET. Investment certainty is vital for price stability – the RET needs to remain to give investors certainty and therefore minimise possible future consumer price shocks.

In addition, this submission highlights a number of other important policy directions that should be pursued to ensure that the electricity market functions more effectively for Australian consumers. PIAC urges the Government to focus on the more significant areas of network pricing, wholesale spot market operation and retail margins to counteract instances of market failure and ensure that Australia's market provides electricity that is accessible and affordable to all residential consumers.

A broader package of measures to reform the National Electricity Market (NEM), especially in demand-side participation and energy efficiency is needed. It is in these areas that real gains could be made for Australian consumers, especially households. In addition, complementary policies to ensure the individual benefits of the RET are realised by low-income and vulnerable households are recommended.

¹ Department of Prime Minister & Cabinet (2014) *Call for Submissions paper*, Commonwealth of Australia

² Climate Change Authority (2012) *Renewable Energy Target review: Final Report*, Commonwealth of Australia

2. Operation, costs and benefits of the Act

2.1 Economic, environmental and social impacts of the RET scheme

The economic, environmental and social impacts of the RET scheme have been well documented and are overwhelmingly positive for Australians. Overall, it is clear that the RET contributes to the pursuit of the National Electricity Objective (NEO) of promoting 'efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity'.

As outlined in the Call for Submissions, the overall economic impact has been to catalyse a multi-billion dollar industry and create tens of thousands of jobs. While the majority of consumers have contributed to the cost of this overall economic benefit, modelling by both ROAM and Schneider Electric show that the RET has net benefits for all Australians. To quote the ROAM report (emphasis added):

In the longer-term, in the absence of new renewable generation being built, wholesale electricity prices will increase from their current levels in response to demand growth and generator bidding strategies. The increase in wholesale electricity costs is greater than the costs of the RET in the medium- to long-term. *Average residential electricity bills would be \$51 a year higher in 2020, an average of \$100 a year higher beyond 2020, and could be as much as \$140 higher, if the RET is repealed compared to the BAU scenario.* It is worth noting that the size of the wholesale electricity price merit order effect modelled for Australia is comparable with international studies of similar electricity markets.³

To quote the Schneider Electric research, the Large Scale Renewable Energy Target (LRET) has three financial benefits to consumers:

1. The LRET acts as a hedge against increasing natural gas prices.
2. The LRET acts as a hedge against carbon emissions costs and may keep carbon prices lower in the long run.
3. The scenarios investigated under the LRET in its current form result in lower prices than do the scenarios with a reduced version of or a repeal of the LRET.⁴

Therefore, regardless of the lack of relative opportunities for individual consumers to access an individual benefit from the RET, for example, by installing a solar PV (photovoltaic) system, *there is a net financial benefit of the RET for all consumers.*

Another, unfortunately not well-documented, economic benefit of the RET has been to encourage new entrants into the Australian market. For example, New Zealand company Meridian entered the Australian market because of the RET and has recently extended its operations to become a retailer. In so doing, Meridian (trading as Powershop Australia) has increased competition in the retail market, with the potential to lower prices for consumers.

³ Gilmore, J & Giacomantonio, C (2014) *RET policy analysis*, ROAM Consulting Pty Ltd for the Clean Energy Council

⁴ Noort, J, Vanderzalm, S, Morris, B & Zembrodt, L (2014) *Australia's Large-scale Renewable Energy Target: Three Consumer Benefits*, Schneider Electric

The jobs created as a result of the RET are both an economic and social benefit. In addition to the approximately 24,000 direct jobs, there are the indirect jobs and multiplier effects that have resulted from the growth of the renewable energy industry in Australia since 2007. Furthermore, according to the ROAM modeling,⁵ an additional 8,000 jobs in large-scale renewables and 3,800 jobs in small-scale renewables are projected to be created before 2020 as a result of the RET.

In terms of other social benefits, the most significant are the health co-benefits of coal-fired generation being replaced by clean renewable generators.⁶ The Australian Academy of Technological Sciences and Engineering (ATSE) estimated in 2009 that the cost of the adverse health impacts from coal-fired electricity generation (including associated respiratory, cardiovascular, and nervous system diseases) was \$2.6 billion annually.⁷ In operation, renewable energy does not have deleterious health impacts,⁸ and so the RET operates to replace health-damaging coal fired electricity generation with clean energy.

The environmental benefits of the RET include fewer greenhouse gas emissions, less water, air, noise and land pollution and reduced impacts on biodiversity (compared with fossil fuel powered electricity generation).⁹

It is important to note that the 'externalities' of health, social and environmental costs not accounted for in the market price of electricity or fuel are nonetheless borne by the community. In addition, these costs are disproportionately borne by low-income and other vulnerable members of the Australian community, especially in places such as the Latrobe and Hunter Valleys.¹⁰ Therefore, *replacing fossil fuel generation by renewable generation is of most value to low income and vulnerable Australians.*

Recommendation 1

That the Australian Government's Review of the RET acknowledge the overall economic, social and environmental benefits of renewable energy, including the financial benefits for consumers to 2020 and beyond.

Recommendation 2

That the disproportionate negative impacts of coal-fired electricity generation on low-income and other vulnerable consumers be acknowledged in the Review.

2.2 The extent to which the formal objects of the Act are being met

The objects of this Act are:

⁵ Gilmore J & Giacomantonio C (2014) *RET policy analysis*, ROAM Consulting Pty Ltd for the Clean Energy Council

⁶ Physicians for Social Responsibility (2012) *Coal's Assault on Human Health* Physicians for Social Responsibility

⁷ Biegler T, Zhang Dong-Ke & Australian Academy of Technological Sciences and Engineering. (2009) *The hidden costs of electricity: externalities of power generation in Australia*, Australian Academy of Technological Sciences and Engineering

⁸ National Health and Medical Research Council (NHMRC) (2014) *Systematic review of the human health effects of wind farms*, NHMRC

⁹ For example, see the Sustainable Energy for All initiative: <http://www.se4all.org/our-vision/our-objectives/renewable-energy/>

¹⁰ Armstrong F, Haworth E, Tait P & Barker H. *Health and Energy Policy*, Climate and Health Alliance; Colagiuri R, Cochrane J, Girgis S (2012) *Health and Social Harms of Coal Mining in Local Communities: Spotlight on the Hunter Region*, Beyond Zero Emissions

- (a) to encourage the additional generation of electricity from renewable sources; and
- (b) to reduce emissions of greenhouse gases in the electricity sector; and
- (c) to ensure that renewable energy sources are ecologically sustainable.

PIAC notes that the CCA's review of the RET in 2013 detailed how the objects of the Act were being well met and that any changes to the RET would jeopardise the fulfillment of the objects of the Act.¹¹ In addition, PIAC notes that any negative changes to the RET would reduce Australia's ability to meet its international commitments to reduce greenhouse gas emissions. Such commitments are in the interests of all consumers in order to limit the future impacts of human-created climate change.

2.3 Interaction of RET scheme with other Commonwealth and State/Territory policies and regulation

In PIAC's view, in an economy the size of Australia's, renewable energy policy needs to be set primarily at the Commonwealth level. It has been disappointing where State/Territory policies (such as Victoria's planning restrictions on wind farms) have limited the effectiveness of the RET. All Australian governments should seek to harmonise policies and regulations to enable the cost-effective implementation of the RET.

Recommendation 3

That all Australian governments seek to harmonise policies and regulation to enable the cost-effective implementation of the RET with its current target, especially in regard to planning regulations which impact adversely on renewable energy developments.

3. Potential changes to the RET

This review and the prospect of changes to the RET is causing significant uncertainty in the renewable energy industry. The *Australian Financial Review* reported that nearly \$1 billion of renewable energy projects have been put on hold pending the outcomes of this review, therefore effectively increasing the cost of the RET to consumers.¹²

Policy certainty is vital to investor and financier confidence and for this reason among others, the CCA found that there was not a compelling case to change the RET. The Authority gave particular weight to concerns that any changes to the target would reduce investor confidence and increase risk premiums for planned renewable energy projects.

PIAC supports the CCA's views and thorough analysis of these matters and believes that *the objective of the RET scheme, to deliver 41,000 gigawatt hours (GWh) plus small scale solar generation by 2020, is still appropriate.*

In terms of the extent of the RET's impact on electricity prices, and the range of options available to reduce any impact while managing sovereign risk, abolishing or reducing the RET will cause electricity bills to rise and this is not an outcome sought by PIAC.

¹¹ Climate Change Authority (2012) *Renewable Energy Target review: Final Report*, Commonwealth of Australia

¹² Australian Financial Review, 24 March 2014, *Renewable energy review raises spectre of sovereign risk: \$1bn projects on ice*

Renewable energy, by definition, uses no fuel in operation and therefore has very low operating costs. As a result, the RET has decreased wholesale prices for all consumers, as discussed above.

Recommendation 4

That the RET remain unchanged in order to limit uncertainty in the wholesale market and maximise the potential for future wholesale price decreases – as modelled – as a result of the 2020 RET.

4. Policy recommendations to lower electricity prices for consumers

As noted in the Australian Government's 2012 Energy White Paper, the Australian Bureau of Statistics (ABS) estimates that household electricity prices have risen by 59% over the past four years.¹³ The primary driver of these price increases has been network prices as a result of massive investments in transmission and, particularly, distribution networks. Accordingly, PIAC has publicly argued for certain policy positions on issues related to energy costs, including energy network regulation and reliability standards.

PIAC submits that if the Australian government is serious about future electricity price rises, it would be of greatest benefit for Australian consumers if it focused on implementing energy market reform. The areas of network regulation, wholesale spot market operation and retail margins all require reform to ensure the long-term interests of consumers are being served by the electricity markets. In particular, more work is needed to ensure demand-side participation in the wholesale market and corrections for market failure in energy efficiency are implemented as soon as possible. PIAC's submission to the 2012 Senate Select Committee on Electricity Prices,¹⁴ which highlights some key policy directions for energy market reform, is attached.

Recommendation 5

That the Government focus attention on implementing energy market reform, especially in the areas of network regulation, wholesale spot market operation and retail margins. As part of this process, complementary measures to the RET of demand-side participation in the wholesale market and corrections for market failure in energy efficiency need to be implemented as soon as possible.

4.1 Impacts on low-income and other vulnerable consumers

PIAC's particular concern is the impact of energy policy on low-income and other vulnerable consumers. There is a need for complementary policies to assist these consumers to access the individual benefits of the RET – ie, to support them to have access to their own sources of renewable energy.

With the advent of solar leasing (assuming the RET continues), household solar is becoming increasingly viable for low-income households: government should encourage this option.

¹³ Australian Government (2012) *Energy White Paper 2012, Australia's Energy Transformation*, Commonwealth of Australia

¹⁴ Public Interest Advocacy Centre (2012) *Equitable access to the essential*

However, effective policies and oversight are required in order to ensure the solar leasing industry develops good consumer practices, including clear contractual arrangements and ethical marketing practices. PIAC recommends that an appropriate consumer protection framework be developed to guide solar leasing industry development. The Australian Energy Regulator (AER) is the body PIAC believes is best placed to do this.

State, Territory and Commonwealth Governments can also facilitate the installation of solar PV on new and existing public and social housing through a variety of policies and programs. Further government attention should be brought to bear on the most effective ways in which this can be done to enable more low income tenants have direct access to renewable energy.

Recommendation 6

That an appropriate consumer protection framework be developed by the AER to guide solar leasing industry development.

Recommendation 7

That the installation of solar PV and solar or heat pump hot water on public and social housing should be a requirement of government funding for new social housing developments.

Recommendation 8

That Australian governments should further investigate how to support the installation of solar PV and solar hot water on existing public and social housing.