

TITLE: Time to untangle the web of renewable energy policies

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Australian climate policy has been defined by its volatility. Grand plans have been hatched, only to wither in the face of opposition. Where policy measures have come to fruition, most have had a short lifespan. On the surface, the one major exception to this is the renewable energy target or RET, which was created by the Howard government in 2001.

When first created, the RET (or mandatory renewable energy target as it was then known) was supposed to deliver a 2% increase in the proportion of electricity supplied from renewable sources by 2010. The stated aim of this mandated increase was to help boost the renewable energy industry and reduce greenhouse gas emissions, and to do so using market forces. More specifically, the RET is a tradable certificate scheme that was designed to incentivise the deployment of least-cost renewables.

Soon after it started, problems emerged. Baselines for hydro generators had been set too low, allowing them to generate renewable energy certificates (RECs) without significant new investment. Moreover, the 2% had been converted into a generation target of 9500 GWh in the RET legislation on the basis of government projections that underestimated growth in electricity demand. Due to this, it quickly became apparent that the RET would only increase renewable generation by around 1%.

Its modest ambition did not shield it from opposition. The fossil fuel lobby and climate sceptics lobbied hard for it to be scrapped when it was reviewed by a panel led by former Northern Territory Country Liberal Party Senator Grant Tambling in 2003. Despite this, the Tambling Review recommended the RET be raised to 20,000 GWh for 2020 and that the end date of the program be extended beyond 2020 to provide certainty for investors.

The Tambling Review's recommendations were motivated, in part, by the RET's success. While it had its design flaws, it prompted rapid investment in renewables, particularly wind. Tambling foresaw that, with the rate of investment, the 9500 GWh target would be met by the mid to late-2000s and, without an enhanced target post-2010, the rate of installation of new renewable generation capacity would drop off.

While Tambling resisted the pressure from the fossil fuel lobby, the Howard government was more accommodating. It dutifully ignored the Tambling Review's recommendations to raise the RET. As a result, there was a downturn in renewable investment, just as Tambling had predicted.

A saviour seemed to come in the leadup to the 2007 federal election. With climate change in vogue, both parties promised to raise the RET, with the Rudd-led opposition pledging to increase it to 10% by 2020 (which would result in 20% of electricity being supplied by renewables). This was greeted warmly by the renewable industry but, upon taking office, the RET slipped from prominence. The Rudd government's energies were focused on the Carbon Pollution Reduction Scheme, and the RET pledge of 20% of electricity from renewables by 2020 was temporarily put on hold.

In August 2009, 18 months after the Rudd government took office, legislation was finally passed that increased the RET to 45,000 GWh by 2020. On its face, this was a positive for the industry. However, federal and state government subsidies for rooftop photovoltaics and solar water heaters had sparked a surge in the supply of RECs, depressing prices. This was stripping away the incentive for investment in large-scale renewable projects.

The response from government was to change the scheme again. From January 1, 2011, the scheme was split in two: the small-scale renewable energy scheme (SRES) and large-scale RET (LRET). Both work on the same basic principles as the original RET: renewable energy generators are able to generate either Small-scale Technology Certificates (STCs) or Large-scale Generation Certificates (LGCs), which are sold to purchasers of wholesale electricity who must surrender a prescribed quantity of STCs and LGCs each year. The benefit of the split RET was that it was supposed to reserve 41,000 GWh of the 45,000 GWh 2020 target for large-scale generators.

This has not gone quite to plan. The excess in the supply of RECs created by the solar and hot water subsidy schemes has kept REC prices down, even though adjustments were made to the LRET trajectory to deal with this issue (the target was effectively brought forward for 2012 and 2013 to clear out the surplus RECs).

Now, to complicate matters further, the government has established the \$10 billion Clean Energy Finance Corporation, half of which is supposed to be spent on renewable energy. Ironically, this new investment in renewables could reduce the REC price further, thereby punishing early investors in renewables. Put more simply, the CEFC will spend \$5 billion to produce the renewable energy that the private sector was already obliged to build under the LRET and SRES.

There won't be more renewables in 2020 as a result of the CEFC, there will just be different renewables. And as the subsidised renewables displace other forms of generation, the REC price could fall.

In addition to potentially driving down the REC price, it is important to emphasise how inconsistent the design principles of the RET and the CEFC are. The RET was intended to let the market choose the cheapest way to generate renewable energy, which has favoured wind. The CEFC, on the other hand, is designed to subsidise forms of renewable energy that are not currently commercially viable, even with the RET and carbon price (e.g. solar thermal and geothermal), while simultaneously maximising commercial returns. As its history

demonstrates, while the RET has had impressive longevity, it has been subject to the same volatility that has plagued all climate policy measures in Australia. Notwithstanding this, the government's Climate Change Authority is now undertaking yet another review of the RET.

Climate Change Minister Greg Combet has signalled the government has no intention to scrap it. If anything, it is looking to tinker with its design features to improve the way it functions. This could include changes to the eligibility of certain technologies, particularly those that do not generate electricity (for example, heat pumps and solar hot water systems).

There is also a push by the forestry industry to make the burning of native forest wood waste eligible. There may even be an attempt by the authority to clarify how the RET and CEFC interact. But more than anything, what the government needs to do is clarify what it is trying to achieve with its renewable energy policies.

There are now multiple programs with competing objectives, the clash between the RET and CEFC being the most obvious. The authority could do a great service by recommending the government adopt a single objective for renewable energy policy — to accelerate the decline in the cost of renewable technologies — and to orientate its policies toward achieving this aim.

Beyond that, the authority needs to impress on government that the constant tinkering with policy instruments and re-ordering of priorities is repelling investors and increasing the costs of mitigating emissions. For efficiency and equity reasons, the renewable industry deserves improved policy certainty.

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