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What future for the RET?

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The outlook for the RET is negative

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- The Renewable Energy Target mandates the rollout of high cost generation capacity into an already over-supplied market.

- The RET is bad policy. This is largely uncontentious amongst economists.

- Greater focus on energy costs within business and households, it is now on the radar politically.

- Change of government also means much more accountability in relation to abatement policy.

- The only real question is how much longer are voters are going to put up with it?

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A brief historical background

• Established by legislation in 2000 by Howard government as Mandatory Renewable Energy Target (MRET).

• Modest target of 9,500GWh by 2010 and maintained at that level until 2020.

• Rudd government in 2009 exploded target almost five-fold to 45,000GWh by 2020.

• 2010 saw scheme separated into the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRET).

• Reviews mandated every two years.

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A reminder of how it works

• Retailers and some generators are forced to purchase certificates for the energy supplied by renewable generators.

• Cost is passed onto consumers, effectively acts as both a tax on consumers and a subsidy to the providers of high cost renewable generation capacity.

• “The LRET is expected to meet the lion’s share of the target – 41,000 GWh of the original 45,000 GWh 2020 target”. (Climate Change Authority)

• “Most new renewable energy generation under the LRET has come from wind and biomass”.

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What makes the RET such a stinker?

- The RET dictates the amount of generation capacity that must come from renewables, it is not a market-based mechanism.

- It operates to drive up energy prices for business and households by means of a highly inefficient distortion of energy supply.

- Inefficient as an emissions reduction policy as lower-cost abatement alternatives are by-passed by the RET.

- RET is ineffective as an “industry assistance” package, does little to improve technology.

Flawed as “industry policy”

- On some views the RET is an industry assistance measure designed to support the renewables sector.

- Government intervention on this basis would typically be justified by beneficial spillovers to other industries from technological innovation.

- But RET does not directly encourage research and development in renewables sector, simply rollout of current high cost technology.

- Spillovers to other industries actually consist of higher energy costs, inefficient and less reliable generation!

Fails as an abatement policy

• Cost of abatement achieved under the RET is considerably higher than alternatives.

• Productivity Commission estimated the implicit abatement subsidy at:

- $37 to $111 per tonne CO2 (LRET)
- $152 to $525 per tonne CO2 (SRET)

• Much higher than UK ETS ($29), German ETS ($20) and NZ ETS ($8-10).

• RET is more likely to displace gas fired generation instead of coal.

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Productivity Commission estimates

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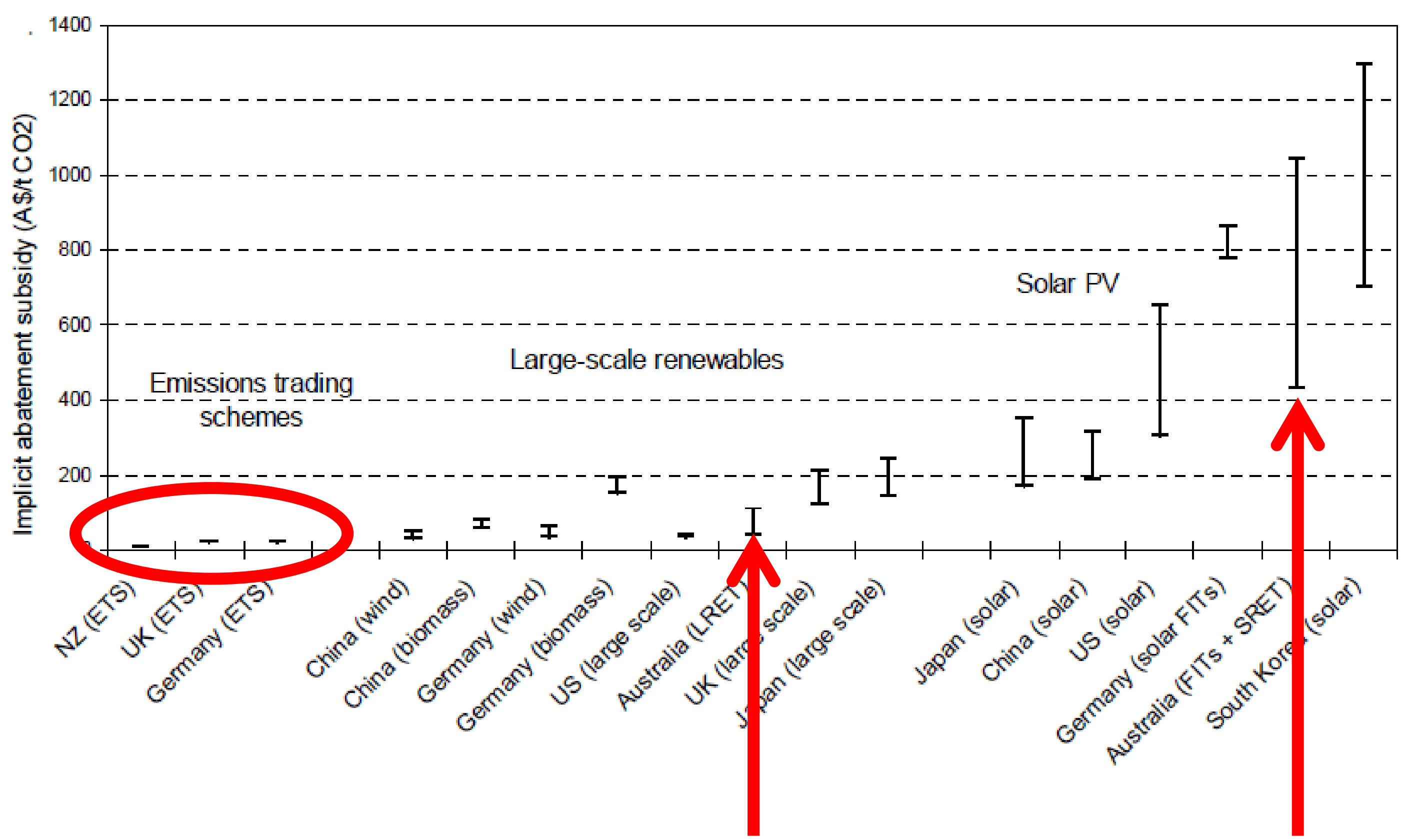
Figure 2 **Implicit abatement subsidies by technology and country**

Electricity generation, 2009, 2010



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Even Climate Change Authority agrees

- “Certificate prices under the RET can be viewed as the ‘top up’ level of subsidy required to make renewable energy viable”.

- “The LRET and SRES increase the cost of electricity to consumers”.

- “The Authority recognises that the RET is not a ‘first best’ approach to reducing greenhouse gas emissions”.

- Climate Change Authority notionally independent but stacked by last government, draw your own conclusions as to “independence”

Justified scheme on basis of stability

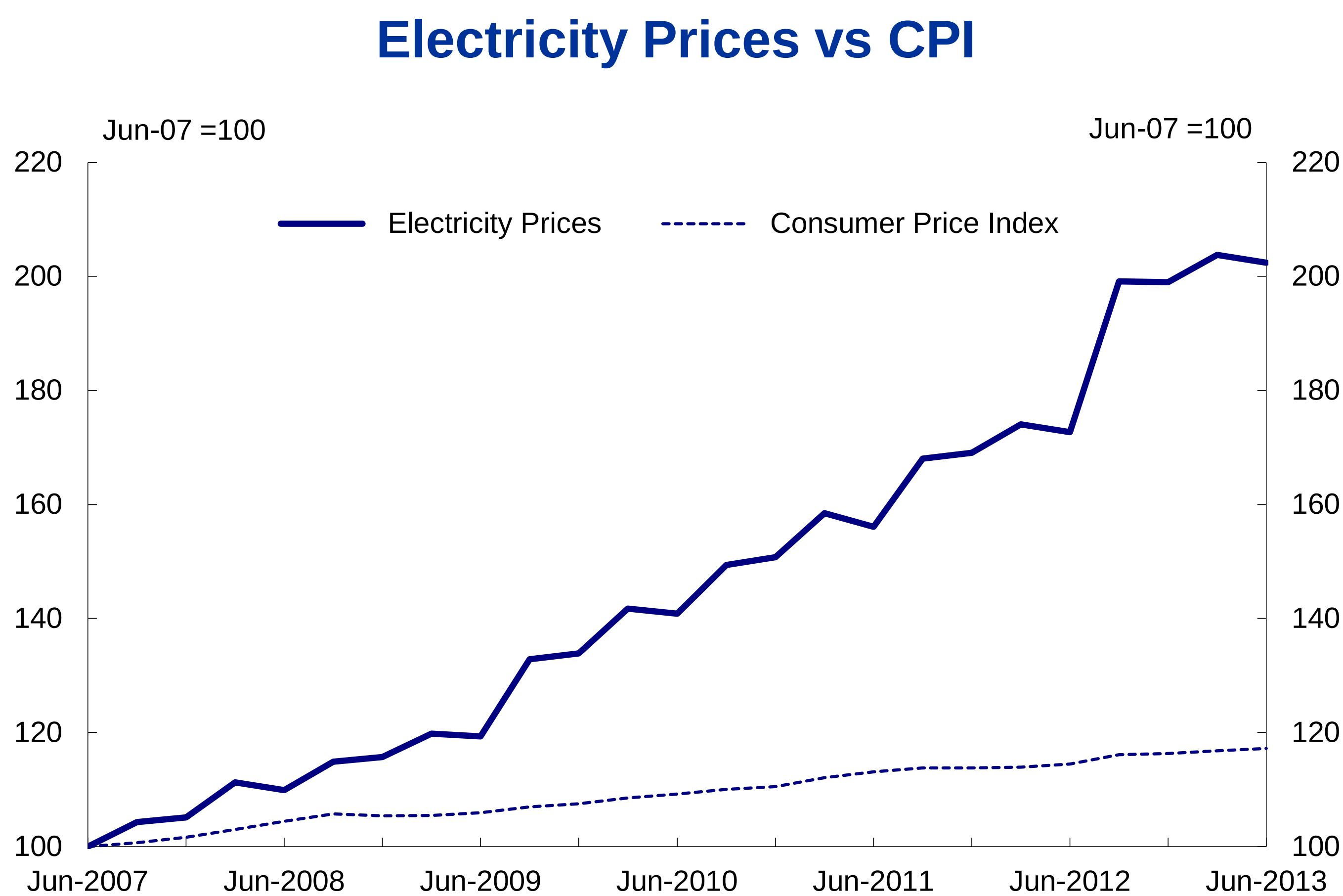
- "Confidence, including in the sustainability of important policy frameworks, is critical in persuading investors (and their financiers) to continue with their plans for long-term investments in renewable generation".

- Unable to justify the policy itself, the CCA justified its continuance on the basis of stability.

- The Chamber believes the desire to provide the certainty of bad policy is a spurious justification for locking in bad policy.

- Bad policy is inherently unstable, it will always be re-contested politically.

Electricity prices on the political radar



QCA shows extent of damage

- Around 20 per cent of average electricity bill for Queenslanders caused by green policies.

- Carbon tax added $190 to the average annual electricity bill.

- Commonwealth's Renewable Energy Target Scheme imposed a $102 burden each year.

- Solar Bonus Scheme cost $67.

- In total, 18.9 per cent of an average $1900 annual electricity bill is made up of green schemes (Queensland Competition Authority).

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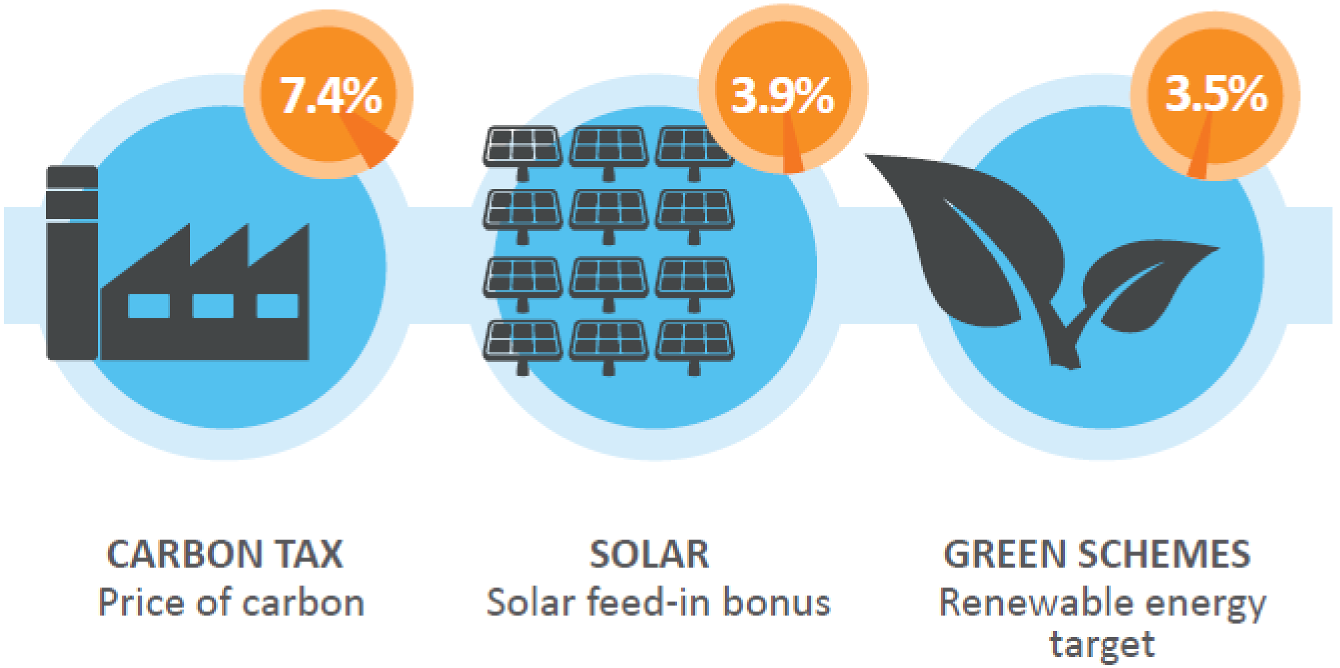
Impact of green policies on electricity

Breakdown of typical Queensland residential bill 2013-14



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IPART also providing cost transparency

- Retailers pass cost of green schemes on to consumers in the form of higher prices.

- Carbon tax added $168 to the average annual electricity bill.

- RET imposes a $102 cost, of which $64 is from the grossly inefficient SRET and $38 from the only highly inefficient LRET.

- NSW energy saving schemes adds $13 and Climate Change Levy $24.

- "fastest growing proportion of a customer's bill over the past two years".

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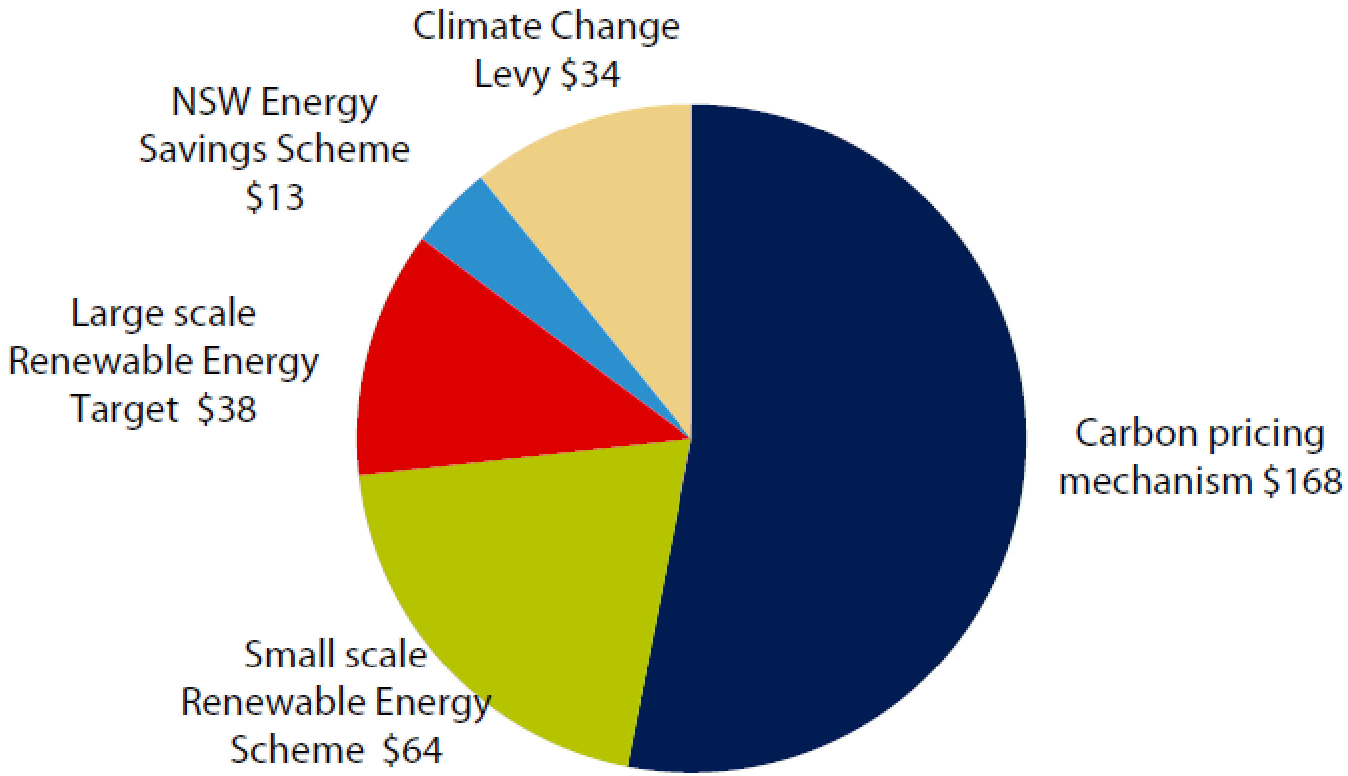
Note the green and red pieces of pie

Contribution of Green Schemes to NSW Customer Bills in 2012/13



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Environment policy has gone feral

• Climate of limited political accountability for years has seen a proliferation of irrational and highly inefficient green schemes.

• The Productivity Commission has identified 230 such measures and concluded that "“many of these policies impose material costs on the community for little or no benefit.”

• They have reduced our international competitiveness, undermined productivity growth and lowered our standard of living.

• The impact of the RET on energy prices is considerable, and second only to the carbon tax.

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Business view on policy settings

• Abolition of carbon tax remains a priority, time to realise it is orphaned internationally.

• Europeans bear cost of around $1.5 per capita under their emissions trading scheme, compared to $360 per capita under the carbon tax.

• Business wants a rationalisation of inefficient legacy carbon abatement schemes.

• The impact of the RET on energy prices is considerable, and second only to the carbon tax.

• The review of the RET should give serious consideration to its abolition.

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Coalition policy to review RET

- Environment Minister Greg Hunt's position:

  "We have stated our support for the RET on numerous occasions both before the campaign and during it."

- Energy policy taken to election made no commitment to RET, didn't rate a mention.

- RET is clearly unpopular with the Nationals and Liberal Party backbench.

- RET will be subject to review again next year, hopefully by the Productivity Commission.

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What is the likely outcome?

- Review will find RET is an inefficient, high cost means of abating carbon emissions and fails as industry policy.

- Probably recommend drawing a line in the sand to protect sunk investment and no further expansion of the scheme.

- Would be one of the few things government can do to ease the strong upward pressure on electricity prices.

- Strong co-incidence of good policy outcome and easy political sell. Undoing bad policy is productivity enhancing structural reform.

Position is analogous to car industry

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- Renewables industry is producing a product no one wants to buy, propped up by artificial support from government in form of RET et al.

- Car manufacturing in Australia is on the brink of closing down (in part due to high energy prices), why should renewables get a free ride?

- In fact, position is probably worse than the car industry. If the RET is abolished electricity prices will fall considerably for energy users.

- Businesses and consumers are wising up to the fact that the renewables industry has been bleeding them dry for years.

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Myriad of forces ranged against RET

- Review will find RET is an inefficient, high cost means of abating carbon emissions and fails as industry policy.

- Political realisation current high level of energy prices is now a deliberate public choice and one that is open to governments to remedy.

- Renewables industry should have taken the electorate with them rather than relying on spin.

- Bad policy is inherently unstable, it will always be re-contested politically.

- Unwise to build your house on shifting sands.