# SUBMISSION TO THE REVIEW OF THE MANDATORY RENEWABLE ENERGY TARGET LEGISLATION REVIEW

Michael Shaw

Monday 5 May 2003

**Introduction**
I have prepared this submission as a private citizen, but it is informed by my professional work life in energy use of buildings, which has largely been in the government sector. I currently work for the Sustainable Energy Authority of Victoria and until early this year I was the energy management officer for Melbourne City Council.

I have a number of points that I wish to comment on and I will do so under the headings of the terms of reference for this review.

**a. the extent to which the Act has:**
**i. contributed to reducing greenhouse gas emissions; and**
**ii. encouraged additional generation of electricity from renewable energy sources**

I do not know what the government intends to do with any penalty funds raised through failure to comply by liable parties, but I believe that this money should go directly to buying RECs or investing in renewables and/or energy efficiency through some other mechanism.

I understand that there is currently no explicit direction from government that (voluntary) accredited Green Power purchases should not attract a MRET pass-through charge from retailers. I believe that the MRET review should consider this (amongst other pass-through charge issues explored later in this submission). Voluntary Green Power purchasers are already investing in renewable energy at a large price premium to themselves and ought to be exempt from any MRET pass-through charge that may be imposed by their retailer. For example, Melbourne City Council were displaying good corporate citizenship by buying 20% Green, but the retailer was charging the MRET charge to 100% of the electricity purchased, not the 80% from "non-Green" sources. If Green Power purchases were to be exempt from the MRET pass-through charge, the cost premium for Green Power would decrease each year, making it appear more economically attractive to potential purchasers in time, and thus growing the renewable sector even more. This would also represent a more equitable distribution of the MRET cost burden.

**b. the extent to which the policy objectives of this Act have been achieved and the need for any alternative approach**

Local or onsite or renewable generation could be better encouraged by somehow taking into account the large distribution and transmission (D and T) losses associated with generating at a remote location. Particularly in rural and regional areas, where electricity may be subject to large D and T losses, there would be a strong economic case for generating locally using renewables. I would support RECs being calculated from primary energy displaced rather than the metered energy being displaced. While there may be a political argument for subsidizing electricity in rural and regional areas, these subsidies should be transparent and should be equally applied to the economics of local renewable generation.

**d. the level of penalties provided under this Act; and**
**e. the need for indexation…**

The current level of penalties may not be high enough. I have seen market prices for RECs coming close to reaching the $40 mark. This indicates to me that this "price cap" is not high enough for the development of cost-effective renewables. The point of the legislation was to grow the renewable energy industry, not for liable parties to avoid their responsibilities through paying the penalty. Consequently I would argue that unless it can be demonstrated that the result would be devastating for energy consumers I think the penalty level should be raised to far above the current REC market price. An economist would best be able advise a reasonable level for this penalty.

It is also clear that the penalty should be indexed in some way, perhaps through linking to CPI. If government is concerned that the MRET does not pose a danger to energy-intensive industry perhaps it could be linked to growth of GDP rather than CPI. To keep the penalty constant for a program designed to last 2 decades is questionable.

**h. the level of the overall target and the interim target**

It is disappointing that the target cannot respond to actual annual electricity consumption. The article from the BCSE[1] (formerly Ecogeneration Association) points out that the additional 2% renewables may well become 1% by 2010. Perhaps the target should be a set percentage rather than a set number of GWhs. This would make the pass-through of charges to customers more transparent.

I am unsure why the government decided to leave the target at 9500 GWh from 2010-2020, but it would be more logical to have it increase over this period. It would be unrealistic to think that energy consumption will remain stagnant over this decade (thus delivering a constant proportion of renewable energy).

**i. the appropriateness of the operating environment including the:**
**i. level of participation in and transparency of the Mandatory Renewable Energy Target measure**

As energy management officer at Melbourne City Council I closely monitored large contestable customer electricity bills. An MRET pass-through charge first appeared in early 2002. It was quite a small component amongst a number of other line items identified by the retailer as "pass-through" charges. I suspect most customers would not bother to verify that the charge is correct. The price levels of all other "pass-through" charges on contestable contract bills (network charges, smelter levy, NEMMCO charges) can easily be verified, while the MRET charge is almost impossible to verify due to its complexity and its dependence on a moving market price for RECs.

I received a fact sheet from the retailer explaining how the MRET charge was calculated. It was based on a RECs charge of $40/MWh. I now know that retailers buy RECs for considerably less than $40. Through investigations made last year I could not find a government body that would accept responsibility for protecting contestable market customers from profiteering though MRET charges. Clearly there is a role for government here. I am concerned that retailers can use the complexity

[1] http://www.bcse.org.au/files/Disappearing%202%20per%20cent.pdf

and confusion around the MRET charge to increase profits for their shareholders. I believe that this money would be better spent on investing in the renewable energy industry.

There is also inconsistency between retailers. Melbourne City Council transferred to a new retailer in August 2002 and the MRET charge from the new retailer was around 60% higher than the previous retailer had charged. Given that the MRET charge increases each January, the new retailer was unable to provide a satisfactory explanation as to why they were charging so much more than the previous retailer. Their response was that they were entitled to add in any administrative costs associated with achieving compliance to the MRET legislation.

Melbourne City Council was soon to produce its own RECs at the Queen Victoria Market solar array. I believe that there should be legislation saying that retailers must accept surrendered RECs from their electricity customers and that these directly offset the MRET pass-through charge on the electricity account. Melbourne City Council was in the ludicrous situation that it was selling RECs to one retailer for a much lower price than it was paying elsewhere to its electricity retailer for RECs in its MRET pass-through charge. Once again this indicates that retailers can use the MRET pass-through charge to increase profits.

**j. the appropriateness of policy settings including the :**
**iv. interaction with relevant Commonwealth, State and Territory energy, environment and industry policies.**

I believe that there is the potential for an uneasy relationship between the National (voluntary) Green Power Accreditation Scheme and the MRET legislation. When MRET was developed it was stated that accredited Green Power purchases were not to be counted by liable parties in meeting their MRET liabilities. I support the intent of this sentiment. I believe that the corollary of this statement is that Green Power purchases should be exempt from any MRET pass-through charge (see earlier in this submission). Also voluntary Green Power purchases should not be counted in the total generation mix upon which the MRET target is based.

If you take the current situation - where Green Power purchases are also charged a MRET levy - to its logical (but unlikely) extreme it makes no sense. In the situation that all Australian electricity consumers switched to Green Power tomorrow, there would be no need for any mandatory level of renewable energy. However, as the legislation currently stands all the electricity consumers (who should be commended/rewarded for switching to Green Power) would then be penalized by a MRET pass-through charge from their retailers.

The recent introduction of the NSW Greenhouse Abatement Certificate Scheme may be a precursor of future actions by other States and Territories. In such a situation, there could be a proliferation of accreditation procedures and markets for different types of certificates. I would argue that for electricity consumers and producers who exist in more than one State or Territory, such a situation would become unnecessarily complex. With the prospect of such a future I believe that there should be one accreditation procedure and one type of certificate that could be used in the various markets for renewable energy:

- voluntary accredited Green Power
- mandatory RECs liabilities
- NSW greenhouse abatement
- and any other State/Territory schemes that may emerge.

This could be developed through a mutually agreed COAG process. If there was one type of accreditation and one type of certificate, then generators of renewable energy could become accredited once and generate one type of certificate that could then be sold in any number of markets, depending on where the best price is available. This would provide more surety for investment in future renewable energy generation capacity.