



Energy Retailers Association  
of Australia Limited

30 June 2010

Research Director  
Environment and Resources Committee  
Parliament House  
BRISBANE QLD 4000

By email: [erc@parliament.qld.gov.au](mailto:erc@parliament.qld.gov.au)

Dear Sir/Madam

**Re: Growing Queensland's Renewable Energy Electricity Sector**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Queensland (QLD) Parliament Environment and Resources Committee's paper: Growing QLD's Renewable Energy Electricity Sector.

The Energy Retailers Association of Australia (ERAA) is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every state and territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers of both electricity and gas.

The ERAA is generally supportive of initiatives to ensure that the supply of renewable energy reaches the market efficiently and without unnecessarily increased cost or risk to energy retailers, especially in regulated energy retail price markets such as Queensland, where retailers have no certainty of full cost pass through. Therefore, any new policy should have a clear objective and be backed by a strong rationale for why it is necessary that the QLD Government intervene in the renewable energy market. As there is already a national renewable energy target, the case for QLD's own target is not clear and there should not be a QLD based scheme which mimics or doubles up on the national Renewable Energy Target (RET). If there is some sort of target to be set, then it should not place the liability on energy retailers or be disguised in energy tariffs, such as the current QLD Ambulance Levy which makes no account for the administrative burden and compliance costs placed on retailers in order to raise this levy.

A QLD based target is unlikely to deliver any additional benefits to Australia on top of the national RET but will push up the total investment cost of delivering the national target. The RET incentivises new investment in renewable energy so that Australia's electricity supply (including amounts displaced by solar and heat pump water heaters) exceeds 20% renewable energy by 2020. If QLD were to set its own target, then this may simply lead to more renewable energy being supplied in QLD without creating any additional renewable energy generation for Australia as a whole. If QLD's renewable generation is more costly than renewable generation opportunities elsewhere, this would push up wholesale electricity prices in QLD and other states for no additional net benefit to QLD or Australia. This would thus be an expensive and inherently redundant policy objective.

Although other States have incentives for renewable energy, the underlying trend is to treat a renewable energy target as a national policy rather than State based. Victoria for example is in the final stages of phasing out the VRET as a result of the Commonwealth implementing the expanded RET in 2009. If QLD were to introduce its own target then this would go against the logical national progression and work against national consistency. Furthermore, such a policy might also be detrimental to the QLD economy if it leads to a net reduction in investment and employment if electricity prices increase as a result of the policy.

Despite this, the ERAA envisages that the QLD Government has a role to play in addressing market failures preventing an efficient uptake of renewable energy in QLD. The QLD Government's role is first of all to identify any market failures; then through consultation with stakeholders address these market failures through transparent/on-budget Government policies. Any intervention should be backed up by a clear rationale, a comprehensive cost-benefit analysis and extensive stakeholder consultation. The tendency in the past has been to introduce schemes without sufficient retailer consultation or implementation time. This results in higher costs for retailers and therefore customers. Furthermore, a rushed program with a lack of consultation can result in an inefficient program which contravenes the primary object of the initial program.

Energy retailers in QLD are caught between regulated retail tariffs and uncertain/extremely volatile energy supply costs. This means that they do not have the ability to fully pass on additional costs through to customers. If the cost of supplying electricity is greater than the regulated price at which they can sell electricity, then they can no longer compete in the market. If targets are achieved through a certificate trading type mechanism, such as that used in the RET, then the added costs placed on retailers will be detrimental for competition in QLD. For this reason and for many more, it is therefore imperative that deregulated retail tariffs are introduced in QLD, such as has been operating in Victoria since 1 January 2009.

The remainder of the submission addresses the specific questions raised in the Issues Paper. The ERAA would welcome further discussion on this submission if required. Should you have any queries, please contact me on (02) 9241 6556.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', written in a cursive style.

Cameron O'Reilly  
Executive Director  
**Energy Retailers Association of Australia**

**Question One – Should the QLD Government aim to expand the use of renewable energy sources to generate electricity?**

Any Government intervention needs a clear rationale as to why it should intervene. If the QLD Government is to expand the renewable energy sector in QLD then this should be based upon addressing a market failure preventing an efficient uptake of renewable energy in QLD.

For example, the heavy cross subsidy caused by Queensland's uniform pricing policy makes it hard for renewable energy to compete in regional areas, where it might otherwise be quite competitive with non renewable energy supplies. Such cross subsidies significantly distort the energy market and prevent business and industry from receiving market price signals about the true cost of providing reticulated fossil fuel based electricity supplies in regional areas. Removing or winding back such market distorting cross subsidies would be a far more efficient mechanism for encouraging renewable energy developments in regional areas, where renewable energy should be free to enjoy its natural advantage, but cannot do so as things stand.

The proposal to use a renewable energy target to correct this is effectively proposing to impose another market distorting intervention to correct the effects of an existing market distorting intervention (the cross subsidy). This would be adding one source of economic inefficiency to another; it would be more efficient to remove or wind back the first one in favour of creating an even playing ground for renewable energy.

There are both positives and negatives of expanding the use of renewable energy generation in QLD. As noted in the discussion paper, renewable energy reduces the reliance on fossil fuels and is likely to reduce QLD's greenhouse gas emissions. On the other hand, renewable energy increases the complexity of the energy supply mix and could push up wholesale electricity prices in the short run.

Currently there are national policies and other state policies encouraging the uptake of renewable energy within Australia, the main one being the Renewable Energy Target (RET). As already mentioned, with a national target already operating, the net result of QLD capturing a larger portion of the RET will most likely have no additional effect on the total supply of renewable energy in Australia, and hence Australia's approximate greenhouse gas emissions (depending on the technologies used).

**Question Two – What are the barriers to increased use of renewable energy for generating electricity and associated investment in QLD?**

There are many 'barriers' to increased use of renewable energy in QLD. These could be cost, investment, technology or otherwise related. The ERAA contends however that the more pressing issue is whether there are any market failures preventing an efficient uptake of renewable energy in Australia.

The role of the QLD Government is not to pick winners and so it must be careful not to pick renewable energy as the winner. The QLD Government does have a role however in addressing market failures which are potentially preventing an efficient uptake of renewable energy in QLD.

The first and perhaps most pertinent market failure is that the market does not put a price on carbon; renewable energy must then compete against greenhouse gas emitting technologies producing at costs

below their total cost of production (including the cost to the environment and society of emitting greenhouse gasses). Ideally this should be addressed by a national mechanism to place a price on carbon, such as an emissions trading scheme or carbon tax.

If a price on carbon is eventually put in place then there may still be market or regulatory failures or barriers preventing the uptake of renewable energy. Often cited market failures are information asymmetries, split incentives and financial barriers to entry. Regulatory failures include the market distorting cross subsidies mentioned earlier. The ERAA believes that the QLD Government could address these areas which are preventing an efficient uptake of renewable energy sources.

The ERAA sees the QLD Government as having a role in addressing information asymmetries by increasing the public's awareness of renewable energy. 'Green power' is currently offered by energy retailers as an alternative product to their standard energy offer: it ensures that a certain percentage of electricity that the customer consumes is generated by 'green power.' This represents an end-user demand for renewable energy and helps to spur along investment in new renewable energy projects. By the QLD Government promoting the profile of renewable energy in QLD, this could indirectly lead to more investment in renewable energy through the increased demand for 'green power'.

**Question Four – What are the priority issues the QLD Government should address to encourage investment in renewable energy for the generation of electricity?**

The QLD Government should identify what, if anything, is preventing the uptake of renewable energy in QLD. As mentioned in the response to the previous question, this could include information asymmetries, split incentives or financial barriers to entry. And most certainly includes the severely market distorting price caps, cross subsidies and uniform pricing policies mentioned earlier.

**Question Five – Should the QLD Government set a state target, or targets, for the proportion of electricity generated from renewable energy sources?**

The ERAA does not support a target for renewable energy in QLD. The QLD Government should not pick winners and should instead allow the market to determine the supply of renewable energy. Instead, it should allow investors and the natural distribution of renewable energy resources to determine the most economically efficient location of renewable generation investments.

Given there is already a national target, a QLD based RET would simply distort the national supply mix of renewable energy in Australia. Unless QLD sets an extremely ambitious target, a QLD based target will not result in any additional greenhouse gas emissions reductions for Australia. Furthermore, the national RET places a large compliance cost and administrative burden on energy retailers. Any additional targets that place the liability on energy retailers would proportionately increase this cost and burden, and in effect would be detrimental to the QLD energy retail market.

**Question Six – If so, what should the target/s be, and what form should it/they take?**

In QLD, electricity prices – the Benchmark Retail Cost Index (BRCI) – is set by the Queensland Competition Authority (QCA). Energy retailers therefore do not have the ability to fully pass on additional costs and may be forced to leave the QLD market if their costs exceed the regulated electricity retail price.

Any target must be mindful of the precarious situation that retailers are in. Currently, retailers are the liable party in the RET and must purchase their liability of certificates. Regulators factor in the cost of certificates when setting electricity prices, but other costs such as the administrative burden and compliance costs are not factored into this. QLD should therefore not implement a target and make retailers the liable party under the scheme as it would have adverse consequences for energy retail competition in QLD, exacerbated by the fixed nature of the BRCI.

A better policy approach is for the QLD Government to have a renewable policy that is transparent, backed up by a clear rationale and for which any costs appear on Queensland Government budget sheets rather than being hidden in retail electricity prices.

**Question Seven – What actions should the QLD Government take to encourage investment in the generation and co-generation of electricity from renewable energy sources?**

The QLD Government should investigate whether or not there are market failures preventing the uptake of renewable energy within QLD. If market failures are found to exist, then the Government should design policies that directly address these market failures. These policies should be on budget with a clear rationale as to why intervention is necessary backed up by a detailed cost-benefit analysis and there should be extensive stakeholder consultation every step of the way.