

Energy Alert

Renewable Energy Target under pressure

WHAT YOU NEED TO KNOW

- The Federal Government has released the terms of reference for a review into the Renewable Energy Target scheme.
- The review will focus on measuring the progress of the Renewable Energy Target against its economic and environmental impacts, its initial objectives and its impact on investment certainty.
- The outcome of the review cannot be predicted with any certainty. However some key terms of reference appear to directly respond to industry and consumer concerns relating to the Renewable Energy Target's impact on electricity prices and the implications of lower than expected electricity demand projections for the Renewable Energy Target. Changes to the level of the Renewable Energy Target, and the timeframe over which it will apply, therefore loom as potentially likely outcomes.

WHAT YOU NEED TO DO

- We anticipate that calls for industry and public submissions on the Renewable Energy Target scheme will be made in either March or April.
- Interested parties should review the Renewable Energy Target scheme terms of reference and watch this space for further developments.

Background

On 17 February 2014, the Federal Government released the terms of reference for a review into the Renewable Energy Target (RET) scheme (**Terms of Reference**).

As prescribed by legislation, an independent review of the RET is required to take place every two years. The last review was conducted in 2012 by the Climate Change Authority.

The 2014 review of the RET will be undertaken by an expert panel (**Panel**), appointed by the Minister for Industry and the Minister for Environment, and supported by the Department of Prime Minister and Cabinet.

The Panel will be headed by former Reserve Bank board member, Mr Dick Warburton, and will include the Chief Executive of the Australian Energy Market Operator, Mr Matthew Zema, the former head of the Australian Bureau of Agricultural and Resource

Economics and Sciences, Dr Brian Fisher, and the former Chief Executive of Verve Energy, Ms Shirley In't Veld.

Scope of the Review

The review will examine the operation, costs and benefits of the *Renewable Energy (Electricity) Act 2000 (Cth) (Act)*, the related legislation, regulations, and the RET scheme.

It will consider:

- the economic, environmental and social impacts of the RET scheme (ie the RET's impact on electricity prices, the energy markets and the renewable energy sector);
- whether the initial objectives of the RET scheme are being met; and
- the RET scheme's interaction with other policies and regulations, in particular the effect of the RET on investment and business certainty.

The Terms of Reference identify that the purpose of the review is to provide advice about:

- whether the current RET of 45,000 GWh by 2020 is still an appropriate target;
- the extent of the RET's impact on electricity prices and the options to reduce any impacts (while managing sovereign risk);
- the operation of the small-scale components of the RET;
- the implication of projected electricity demand for the 41,000 GWh target for large generation; and
- implementing arrangements for any proposed reforms to the RET.

In addition, the review will also consider whether to reinstate native forest wood waste as an eligible renewable energy source.

Notably, the Terms of Reference do not expressly identify whether the review will consider the RET's contribution towards achieving a reduction in emissions, especially in light of the Federal Government's proposed carbon tax repeal.

Revising the RET

As it currently stands, the RET requires that 20% of Australia's electricity be produced from renewable energy sources by 2020. Based on previous estimations of consumption, this 20% is set as a hard target of 45,000 GWh by 2020.

In order to meet this target, Australia requires an additional 9,000 MWs of renewable generation to be constructed by 2020.

Prime Minister Tony Abbott has faced both internal party pressure and industry pressure to either reduce the RET, or scrap it entirely.

In particular, industry commentators have expressed concerns that:

- the current RET is excessive and revised energy consumption forecasts suggest that the hard target of 45,000 GWh will actually be around 23-27% of the total Australian energy consumption in 2020;
- the 9,000 MW of generation required in the next six years will be difficult to develop and represents several multiples of what has historically been built in the past decade; and

- a legislative review every two years leads to business uncertainty for renewable investment in Australia.

Under the Terms of Reference, the Federal Government has also reaffirmed its commitment to easing the pressure of electricity prices for families and business.

According to the Australian Energy Market Commission, in 2013 to 2014 the RET accounted for approximately 6% of residential customer's retail costs.

Based on the Federal Government's previous statements, and its concerns relating to electricity prices, we anticipate a quite likely outcome of the review will be a reduced RET to at least reflect a 'real' 20% by 2020.

Any revision to the RET is likely to have potentially significant impacts on the level of renewable energy investment in Australia. For example, a 'real' 20% RET would cut the amount of renewable generation required by 2020 from the forecast 9000 MW to around 5000 MW.

Another outcome might be a delay in the date by which any new RET level is to be implemented and to also extend the end date for the scheme. This would allow for a more gradual introduction of new renewable generation capacity to the market and less likelihood of significant upward pressure on electricity prices over the near to medium term, while still providing investor certainty.

What you need to do

The Federal Government has indicated that the review process will involve opportunities for public and industry consultations and submissions.

The Panel is to provide a report on the RET to the Federal Government by mid-2014. We expect that calls for industry and public submissions will be made in either March or April.

If the proposed review of the RET scheme is likely to impact on your business, you should review and consider the Terms of Reference. We will notify you when the opening date for submissions is announced.

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