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Victorian Department of Environment, Land, Water & Planning
GPO Box 4509
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Via email: renewable.energy@delwp.vic.gov.au

Dear Sir

Comments on Consultation Paper - Victorian Renewable Energy Auction Scheme

The Australian Industry Greenhouse Network (AIGN) welcomes the opportunity to respond to the Consultation Paper on the Victorian Renewable Energy Auction Scheme. We would note our concern at the relatively limited time provided for consultation, particularly given it is an issue that has major implications for the competitiveness of firms within the Victorian economy.

As background, AIGN represents peak industry associations and corporates with a strong interest in climate change policy, and its approach to this subject is guided by a set of principles, of which a copy is attached. Collectively, those entities represented by AIGN are responsible for some 60% of Australia's annual emissions of greenhouse gases. A number of AIGN members operate large manufacturing facilities in Victoria, in industries such as metals processing, building products, food processing, petrol refining etc, as well as operating power-generating facilities.

In responding to the Consultation Paper, AIGN will primarily comment on issues around the need for consistency in the workings of the Victorian RET (VRET) with the Federal Renewable Energy Target (RET) and the minimisation of administrative costs.

In considering this response, the members of the Review should note AIGN's broad range of members, and resultant wide diversity of views on greenhouse and energy policy. This response accords with the views of our members in general. However, at times there are variations in the positions of individual members on specific issues. It is therefore important that the Review considers AIGN's comments alongside any responses made to the Review by our members.

Background

AIGN advocates a climate change policy environment that delivers least-cost, environmentally-effective and equitable outcomes for Australia. It is important that policies applying in this area are stable, predictable and avoid complexity, to help minimise investment uncertainty and avoid exposing Australian export and import competing industries to costs not faced by these industries in other countries.

Our preference is that climate change policies should be implemented at the national level to avoid the costly duplication that may arise from a competing set of national and State-based mitigation policies. AIGN is aware that under the Council of Australian Governments (COAG), a considerable amount of work has already been undertaken to remove competing policies, particularly in the area of energy efficiency, where the proliferation of policies added to industry costs for no appreciable outcome. The worst case scenario for industry in Australia would be the return of myriad State-based schemes with, for example, each State having significantly different renewable energy objectives and programs designed to achieve these targets.

Whilst AIGN recognises that the Victorian Government has spoken of taking a “*leadership*” position in Australia in respect to climate change policy, AIGN has expressed its concern that we are now seeing the emergence of significant differences in policy approach across Australia. This divergence in approach has the potential to significantly increase costs for industry in Victoria by requiring it to meet a number of differing policies applying at the Federal and State Government level.

Any increased costs and administrative burden will impact on the international competitiveness of Victorian-based companies at a time of significant cost pressures. Decisions on where returns can be maximised do not solely relate to the Victorian or Australian environment, but are also taken on a global scale. For example, a decision regarding an energy improvement opportunity in an Australian subsidiary may be competing for funding with a similar opportunity in another market. In this context, general market conditions and growth prospects, as well as government policy, will have major roles to play.

Background to the RET

The following comments on the operation of the Federal RET and policy approaches towards emissions-intensive trade-exposed (EITE) industries are drawn from the 2013 paper prepared for AIGN by the Centre for International Economics, titled ‘The Renewable Energy Target – How it works and what it costs’ (available on the AIGN website¹).

The RET is a government intervention designed to mandate the proportion of electricity generated from selected renewable sources. It is a policy that taxes electricity users (and, in some cases, non-renewable generators) in order to subsidise selected renewable producers.

The RET achieves this through the creation of a renewable certificate market. Renewable certificates are issued to renewable generators for the renewable electricity they produce. Liable entities (mostly electricity retailers) must purchase these certificates to cover their liability under the target. The certificate purchase price is usually passed on to electricity consumers.

Renewable producers receive a subsidy when they sell the certificates they have been issued. This subsidy is paid by an effective tax on the liable entities that must purchase certificates. The RET acts as a tax on both energy consumers and conventional energy suppliers to fund a subsidy to selected renewable energy generators.

¹ http://aign.net.au/file_download/1051/RET+How+it+works+and+what+it+costs+November+2013.pdf

The Climate Change Authority, in its Report on the RET in 2012, concluded:

“Costs to business customers are estimated to increase by around 5% as a consequence of the RET. Costs to broad industry sectors:

- *range from \$20 million to \$50 million per year for food processing;*
- *range from \$20 million to \$40 million per year for the wood products and paper industry;*
- *are around \$120 million per year for the iron, steel and aluminium industries; and*
- *are around \$50 million per year for other manufacturing.”*

It was recognised that under the RET, some of the higher costs will fall on trade-exposed industries. The original RET included provisions for partial exemptions from LRET and SRES liability for electricity used in defined EITE activities.

The rationale behind providing assistance for EITE activities is that these businesses operate in an international setting where their competitors do not face similar cost impositions. Many EITE businesses are unable to pass on the additional cost of the RET to their customers as it can reduce competitiveness as well as investment attraction. As such, some may be compelled to relocate overseas where they do not have to absorb the costs of a RET. This is undesirable from an Australian industry perspective.

Eligible trade-exposed activities are assessed for their overall emissions intensity on the basis of historical data, irrespective of the extent to which those emissions are related to electricity use (CCA 2012). There are currently more than 30 eligible EITE activities.

This partial exemption was increased to a full extension for eligible EITE activities in the Government’s decision of last year with regard to the future of the RET. This was in recognition of the large cost burden that the RET was imposing on EITE entities.

Implications for Victoria

AIGN appreciates that the VRET is designed to reduce greenhouse gas emissions whilst encouraging investment in renewable technologies, both as energy sources and as an industry in their own right.

As mentioned above, there was an agreement last year at the Federal level to exclude from the RET’s operations those companies defined as EITEs to reduce the cost-burden imposed under the operations of the RET.

AIGN supports the proposal at page 12 of the Consultation document that under “Administration” that the exemption applying for EITEs under the Federal Government’s RET should also apply to the VRET. This should also be extended to large energy users consuming in excess of 100TJ per annum. There are many large EITEs and energy users operating facilities in the Victorian economy and that are significant contributors to the Victorian economy in terms of employment, revenue and skills added.

Any requirement to meet solely Victorian requirements would add considerably to industry costs and require a whole new layer of administration with attendant costs. Exemption would also be consistent with the approach followed in regard to the Victorian Energy Efficiency Target where large users are exempted from its provisions.



To consider the inclusion of large businesses within the VRET when they are excluded from the Federal RET, would send the wrong signals and add to duplication and costs at a time of intense competitive pressure. Further, it will impose increased costs and duplicate other Government policies with little additional benefit and will be in conflict with the gradual removal of a number of State-based arrangements; the plethora of these schemes has caused unnecessary duplication and cost to industry.

AIGN proposes exemption from the operations of the proposed VRET to facilities that are the beneficiary of an allocation of exemption certificates under the Federal RET in the latest year before the application as well as those large energy users (in excess of 100TJ pa). We understand that the provision of relevant information for these tests would be available to the Victorian Government via the MOU it holds with the Commonwealth Clean Energy Regulator, which already receives NGER data from all facilities with 100TJ or more of energy consumption. Exemption should apply over the whole target period.

AIGN would also note that given the structure of Australia's economy, it is important that Australia has competitively-priced energy, and that the Government at both the national and State levels avoid policies and programs that are implemented in the absence of market failure, or which do not address the underlying market failure specifically, and therefore run the risk of encouraging irrational decision-making.

We thank you for the opportunity to provide our comments in respect to the operation of the VRET, and look forward to future involvement.

Yours faithfully

Alex Gosman
CEO AIGN

Encl. AIGN Principles

The Australian Industry Greenhouse Network's position on climate change is informed by the following principles.

Australia should make an equitable contribution, in accordance with its differentiated responsibilities and respective capability, to global action to reduce greenhouse gas emissions and to adapt to impacts of climate change.

Further, Australia should engage the international community in pursuing identified and beneficial environmental outcomes through greenhouse gas emissions reduction action, which:

- allows for differentiated national approaches;
- promotes international cooperation;
- minimises the costs and distributes the burden equitably across the international community;
- is comprehensive in its coverage of countries, greenhouse gases, sources and sinks;
- recognises the economic and social circumstances and aspirations of all societies; and
- is underpinned by streamlined, efficient and effective administrative, reporting and compliance arrangements.

In this global context, Australia should develop a strategic national approach to responding to climate change, that:

- is consistent with the principles of sustainable development;
- is consistent with other national policies, including those on economic growth, population growth, international trade, energy supply and demand, and environmental and social responsibility;
- takes a long-term perspective;
- maintains the competitiveness of Australian export- and import-competing industries;
- distributes the cost-burden equitably across the community;
- adopts a consultative approach to the development of new policies; and
- is consistent and effectively coordinated across all jurisdictions throughout Australia.

Australia's future greenhouse policy measures should:

- be consistent with the strategic national approach;
- be trade- and investment-neutral in a way that does not expose Australian industry to costs its competitors do not face;
- not discriminate against new entrants to Australian industry nor disadvantage 'early movers' in Australian industry who have previously implemented greenhouse gas abatement measures;
- take account of the differing sectoral circumstances;
- be based as far as is practicable on market measures;
- address all greenhouse gases;
- address all emission sources and sinks; and
- balance, in a cost-effective way, abatement and adaptation strategies, both of which should be based on sound science and risk management.

Australia's contribution to the global climate change effort as set out here reflects the principle in Article 3.1 of the United Nations Framework Convention on Climate Change. Differentiated responsibilities and respective capabilities could take account of such matters as a country's economic growth and structure, population growth, energy production and use etc.