



30 July 2008

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### **APIA response to Design Options for the Expanded National Renewable Energy Target Scheme.**

While the Australian Pipeline Industry Association (APIA) understands that the *Design Options for the Expanded National Renewable Energy Target Scheme* paper seeks comment on the two possible design approaches for the scheme outlined in the paper, APIA has decided it is more appropriate for this industry to comment on the impact of a mandatory renewable energy target.

APIA is the peak national body representing the interests of Australia's high-pressure transmission pipeline sector. APIA's membership is predominantly involved in the high-pressure transmission of gas, however, the Association membership also includes companies and individuals involved in the transmission via pipelines of other products, including water, slurry and oil. Clearly, this representation is likely to also include transmission of carbon dioxide and other greenhouse gases as part of carbon capture and storage.

APIA has genuine concerns regarding the incompatibility of any emissions trading scheme such as that proposed as part of the Carbon Pollution Reduction Scheme (CPRS) and a Renewable Energy Target (RET). The two schemes working at the same time would lead to inefficient investment in expensive technologies and increase the cost of achieving the emission reduction targets set by government.

Recent modelling conducted for the Australian Petroleum Production and Exploration Association shows that to reach an emissions abatement target of 67Mt CO<sub>2</sub>-e in 2020, electricity prices would need to rise by 18% under an emissions trading scheme (CRA International). Under a scenario where emissions trading is combined with a RET of 20%, the modelled domestic electricity price rises by 24%. Later modelling by ACIL Tasman for the Energy Supply Association of Australia suggests that the increase in electricity prices could be higher if the Government's 2050 emissions reduction target is to be achieved. The figure would depend upon the features of the emissions trading scheme that is eventually introduced.

While a RET aims to encourage investment in zero-emission power generation technologies, it would also create significant distortions in the electricity market. The primary distortionary effect, of encouraging the switch to renewables technologies that would not otherwise be supported by the market, is an intended policy outcome.

A further challenge is created by the intermittent availability of most renewable forms of energy, for example, energy provided by wind power. Zero-emission power generation requires the creation of additional reserve generation, able to be drawn on at short notice to maintain stability in electricity transmission grids. There are clear indications from policy makers that gas-fired intermittent load plants are expected to provide this back-up in most Australian states.

The costs imposed by RET style schemes can also be a disincentive to new investment in low-emission gas-fired power generation, that would have occurred in the absence of a RET as replacement for higher-emission coal-fired plants. In other words, there is a possibility that current RET policies could create a price signal that would defer investment in gas-fired power generation, which may have a higher unit cost but does provide a cleaner output than coal-fired generation.

This also means that investment directed to wind-generated power rather than gas-fired power could extend the nation's dependence on cheaper (per unit) and more emissions intensive coal-fired plant in order to ensure reliability and ease price shocks.

Therefore, the distortions in the market created by a RET-style scheme could have the effect of negating the actual policy objectives of the scheme.

APIA believes that it is essential that any RET should be phased out once the CPRS is established. To provide certainty for business investment such a phase-out would require a clear timetable, commencing on the inception of the CPRS and be completed by no later than 2020 or earlier depending upon the structure

of the CPRS. Such a phase out should include all RET schemes including any remnant state-based schemes.

Further, APIA believes it is difficult to properly consider a detailed industry response to the RET scheme and the approaches outlined in the paper in the absence of detail on the timeframes, prices, caps and trajectories that will be in place under the CPRS. It is essential that the need for the RET, and any approaches to its implementation, be formally reviewed following the release of Treasury modelling and further details of the CPRS.

As the Government is committed to introducing a RET, APIA suggests the RET definition be expanded to include lower emission fuels, so that natural gas can be considered as a fuel source under the scheme. Such an expansion would help to ensure there is appropriate investment in natural gas infrastructure. Expanding the definition would provide greater flexibility for energy producers while still supporting the development of renewable technology.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Cartwright', with a long horizontal line extending to the right.

CHERYL CARTWRIGHT  
Chief Executive