



14 May 2014

By email: RETReview@pmc.gov.au

Renewable Energy Target Review
Department of the Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2600

Review of the 2020 Renewable Energy Target

The Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to provide input into the Federal Government's review of Australia's Renewable Energy Target (**RET**).

Consumer Action is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action offers free legal advice, pursues consumer litigation and provides financial counselling to vulnerable and disadvantaged consumers across Victoria. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

In 2012, Consumer Action published a report titled "A policy trilemma" which identified the central challenge facing the energy market—the need for it to deliver affordable, secure and sustainable energy services, so that it promotes the long-term interests of Australian consumers.ⁱ That report stated that coherence, longevity, openness and accountability in the design, implementation and oversight of "green schemes" are required to ensure legitimacy and public support for schemes designed to reduce carbon emissions. We welcome the review of the RET, and submit that stringent and robust monitoring and evaluation of programs should be introduced when climate change policies are implemented and reviewed, to identify the effect on distribution and net cost. Rather than abolishing "green schemes" (it is clear that climate change mitigation is in the interest of consumers and the community), policy makers need to ensure that program design and mechanisms can operate effectively within competitive market structures, and that they deliver outputs in desired time frames while remaining affordable.

Overall assessment of the RET

The RET has been a successful policy for encouraging development of Australia's renewable energy industry. The Call for Submissions to the Reviewⁱⁱ notes that about \$18 billion of investment has been stimulated by the RET, resulting in 24,000 direct jobs. Consumer Action believes that the RET has also helped reduce the carbon intensity of the Australian electricity sector and, by extension, the Australian economy and so has helped position the Australian economy for the 21st century.

Consumer Action Law Centre

Level 7, 459 Little Collins Street Telephone 03 9670 5088
Melbourne Victoria 3000 Facsimile 03 9629 6898

info@consumeraction.org.au
www.consumeraction.org.au

The economic, environmental and social impacts of the RET have been well documented, even within the Call for Submissions, and are overwhelmingly positive for Australians. Overall it is clear that the RET does serve the National Electricity Objective (NEO), of promoting ‘...efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity’.

Costs and benefits of RET

We are aware of concerns that the RET adds costs to consumer bills. Our view is that the costs have been overstated, and are outweighed by the benefits that the RET provides, including benefits to energy prices over the longer term. The Australian Energy Market Commission’s reporting on energy prices states that the RET currently accounts for about 4 per cent of a consumer bill, and that this will reduce to 3 per cent in 2015/16.ⁱⁱⁱ This equates to approximately \$1.00 – \$1.40 a week today down to \$0.63 – \$0.90 a week in 2015/16. This is a very small amount and removal of it is not going to substantively contribute to more affordable consumer bills—greater benefit is likely to result from better regulation of energy networks, and more effective competition at the retail level.

More importantly for Consumer Action’s clients, the RET is driving down the cost of wholesale energy, far offsetting the costs of the scheme. As the Australian Energy Market Operator has reported, the widespread uptake of small scale solar PV and solar hot water (incentivised by the small scale RET) may be contributing to the overall reductions in demand, which is lessening wholesale prices.^{iv} Further, modelling by both ROAM and Schneider Electric show that the RET has net benefits for all Australians. To quote the ROAM report:

In the longer-term, in the absence of new renewable generation being built, wholesale electricity prices will increase from their current levels in response to demand growth and generator bidding strategies. The increase in wholesale electricity costs is greater than the costs of the RET in the medium- to long-term. *Average residential electricity bills would be \$51 a year higher in 2020, an average of \$100 a year higher beyond 2020, and could be as much as \$140 higher, if the RET is repealed compared to the BAU scenario.* It is worth noting that the size of the wholesale electricity price merit order effect modelled for Australia is comparable with international studies of similar electricity markets.^v

Further, the Schneider Electric research also found that the Large Scale Renewable Energy Target (LRET) also has three financial benefits to consumers:

1. The LRET acts as a hedge against increasing natural gas prices.
2. The LRET acts as a hedge against carbon emissions costs and may keep carbon prices lower in the long run.
3. The scenarios investigated under the LRET in its current form result in lower prices than do the scenarios with a reduced version of or a repeal of the LRET.^{vi}

Therefore, regardless of the lack of relative opportunities for individual consumers to access an individual benefit from the RET, for example by installing a solar pv (photovoltaic) system, there is a net financial benefit of the RET for all consumers.

Another, unfortunately not well-documented, economic benefit of the RET has been to encourage new entrants into the Australian market. For example, New Zealand company Meridian entered the Australian market because of the RET and has recently extended its operations to become a retailer. In so doing, Meridian (trading as Powershop Australia) has increased competition in the retail market, with the potential to lower prices and deliver more innovative services for consumers.

Consumer Action therefore recommends that the RET remain unchanged in order to limit uncertainty in the wholesale market and maximise the potential for future wholesale price decreases – as modelled – as a result of the 2020 RET.

Distribution of benefits

Research suggests that the costs of RET are not shared evenly among different classes of consumers. The Centre for Energy and Environmental Markets (**CEEM**) has found that some energy-intensive industries are benefiting from lower wholesale electricity prices whilst being largely exempted from contributing to the costs of the RET scheme. In contrast, many households are paying RET pass through costs whilst not necessarily benefiting from lower wholesale prices.^{vii} Rather, retailers are likely to be receiving this benefit.

CEEM suggest more equitable distribution of RET costs and benefits could be achieved by reviewing the scope and extent of industry exemptions. Moreover, an ongoing focus by policymakers and regulators on the effectiveness of retail competition, particularly in retail markets with deregulated prices like Victoria, may contribute to retailers not being able to withhold reductions in wholesale energy costs from residential consumers. This will require policies to 'activate' residential consumers so that they can effectively participate in retail energy markets, including policies to simplify choices, standardise offers so consumers can more easily compare offers, or the promotion of tools that assist consumers make decisions that benefit them.

Consumer protection in distributed generation

There is a need for complementary policies to assist consumers, particularly more vulnerable and disadvantaged consumers, to access the individual benefits of the RET (ie. to support them to have access to their own sources of renewable energy) while not suffering detriment in a rapidly evolving and relatively unregulated market.

In particular the boom in solar energy providers, and resulting flux as companies and business models prosper or fail, creates significant risk for consumers. We receive a high volume of calls to our legal help line from consumers who have invested in solar products and have a variety of problems ranging from companies unexpectedly exiting the market leaving consumers in the lurch, to changing tariffs or lack of dispute resolution processes. These problems all essentially relate to a lack of consumer protections.

While we support the further development and installation of demand side technologies as a means for consumers to manage their energy costs, we believe that the current practice of the Australian Energy Regulator in exempting solar leasing companies from retailer authorisation removes the requirement for those companies to meet the fundamental consumer protections

provided by the National Energy Consumer Framework, or the Energy Retail Code here in Victoria. Solar leasing or other finance solutions has the capacity to improve access to distributed generation for lower resourced households, however it is critical to the equitable treatment of consumers in this (and other) emerging technology markets to ensure that consumer protections are provided so that consumers are empowered to participate safely in the market.

We therefore recommend that solar companies (including leasing and other finance offers) are required to meet the following minimum criteria:

- The company has signed up to the Clean Energy Council's voluntary Solar PV Retailer Code of Conduct, or other appropriate level of consumer protection;^{viii}
- Where solar systems are paid for through credit, leases or the purchase of electricity generated from those systems over the life of the system, easy to understand consumer information about the cost of credit is provided so that consumers can compare costs with other purchase models; and
- The company is a member of the relevant industry ombudsman schemes within their operational jurisdiction.

State and Commonwealth Governments could also facilitate the installation of solar PV on new and existing public and social housing through a variety of policies and programs. Further government attention should be sought to bear on the most effective ways in which this can be done to enable more low income tenants to have direct access to renewable energy.

On all further matters, Consumer Action supports the recommendations made to this Review by the Public Interest Advocacy Centre (PIAC) and we refer you to their submission.

If you would like to discuss these matters further, or have any points of clarification in regards to this submission, please do not hesitate to contact Claire Maries, Senior Policy Officer, Energy directly on 8554 6907 or at claire@consumeraction.org.au.

Yours sincerely,

CONSUMER ACTION LAW CENTRE



Gerard Brody
Chief Executive Officer



Claire Maries
Senior Policy Officer

ⁱ Consumer Action Law Centre and Foundation for Effective Markets and Governance, *A policy trilemma: Creating an Affordable, Secure and Sustainable Energy Market*, November 2012, available at: <http://consumeraction.org.au/policy-report-a-policy-trilemma-creating-an-affordable-secure-and-sustainable-energy-market/>.

ⁱⁱ Department of Prime Minister & Cabinet (2014) *Call for Submissions paper*, Commonwealth of Australia

ⁱⁱⁱ AEMC, 2013 *Residential Electricity Price Trends report*, 13 December 2013, available at:

<http://www.aemc.gov.au/Media/docs/2013-Residential-Electricity-Price-Trends-Final-Report-723596d1-fe66-43da-aeb6-1ee16770391e-0.PDF>.

^{iv} AEMO, 2013 *National Electricity Forecasting Report*, Australian Energy Market Operator, p.1-3.

^v Gilmore, J & □ Giacomantonio, C (2014) *RET policy analysis*, ROAM Consulting Pty Ltd for the Clean Energy Council

^{vi} Noort, J, Vanderzalm, S, Morris, B & Zembrodt, L (2014) *Australia's Large-scale Renewable Energy Target: Three Consumer Benefits*, Schneider Electric

^{vii} Johanna Cludius, Sam Forrest, Iain MacGill, *Distributional Effects of the Australian Renewable Energy Target (RET) through Wholesale and Retail Electricity Price Impacts*, Centre for Energy and Environmental Markets, available at:

http://ceem.unsw.edu.au/sites/default/files/documents/RET_Distribution_JEPO_forthcoming.pdf.

^{viii} This code has been authorised by the Australian Competition & Consumer Commission, see

<https://www.solaraccreditation.com.au/retailers/solar-pv-retailer-code-of-conduct.html>.