Power bill shock as RET helps big firms

- The Australian
- 12:00AM November 1, 2016
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Households face higher bills and the largest electricity retailers stand to make tens of millions of dollars in windfall gains from a spike in renewable energy prices caused by concerns Australia will not reach its 2020 renewable energy target.

The price of large-scale generation certificates — which are produced for each megawatt of renewable power and act as an effective subsidy to wind, solar and hydro generation — has spiked in recent weeks as investment in new projects fails to keep pace with the growth required to meet the Renewable Energy Target of 23.5 per cent, or 33,000GWh, by 2020.

The developments mean consumers face paying more for electricity without increasing the amount of renewable generation in the system.

The certificate price is peaking as a panel led by Chief Scientist Alan Finkel examines the national electricity market, including energy security, costs, and the integration of renewables. The inquiry comes after South Australia's statewide electricity blackout last month, sparked by a once-in-50-years storm that forced the state's windfarms to close and the interconnector with Victoria to trip.

AiGroup chief executive Innes Willox told *The Australian* yesterdaya spike in spot prices for LGCs reflected "a growing risk that new renewable energy is not rolled out fast enough to meet the Renewable Energy Target on time''. "This could add an extra 1-2 per cent to retail electricity bills for households and businesses, on top of the much steeper rise in electricity prices that is already happening as the power market tightens and high gas prices flow through,'' Mr Willox said.

The price of certificates generated by large users climbed to about $90 last month from an -average of $54.15 last year.

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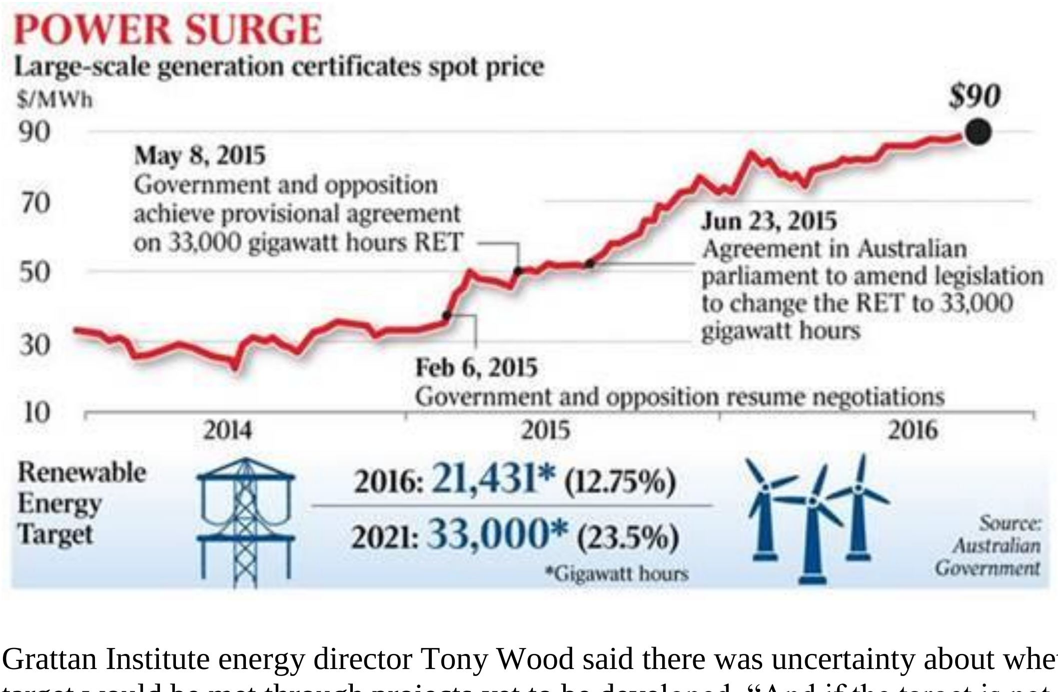
The LGC market has attracted some of Australia's largest financial institutions — ANZ is the third-largest holder of LGCs generated this year while Macquarie is the ninth largest, according to analysis by *The Australian* — as well as a significant number of overseas investors. AGL, Origin Energy and EnergyAustralia are best positioned to take advantage of the pricing difference between a low contract price for the long-term supply of renewable energy credits and the spike in spot prices. Tristan Edis, a market analyst at Green Energy Markets, said: "The current situation is a buyer's market for retailers. There are plenty of (renewable energy) projects available but there are only a small number of retailers who can offer bankable power purchase agreements."

While the contracts are confidential, AGL's financial statement shows earnings in the account in which certificates are held jumped 135.5 per cent this year, from $31 million to $73m.The three largest electricity retailers control more than 30 per cent of certificates generated this year, analysis shows. An AGL spokeswoman said the company was a "net buyer from the market at current spot prices''.

Origin declined to answer questions about its certificate trading and the price gap between its long-term contracts and the competitive market rate passed on to consumers. But the company confirmed it had procured certificates "at variable prices since 2000, through long-term contracts with wind producers, building and contracting large scale solar projects and via the spot market".

However, the company's energy markets head, Frank Calabria, appeared to suggest earlier this year that Origin's cost on the spot market and for hedging contracts was significantly below the market rate. While the price of certificates generated by large users rose from an average of $54.15 last year to an average of $82.49 this year, Mr Calabria told investors Origin's contract costs had increased from $38 to $71 per certificate. In its financial statements, Origin said: "Trends of increasing wholesale prices, volatility and (certificate) prices are expected to improve Origin's competitive position compared to retailers with less integrated and flexible portfolios."

Despite being scaled back last year after 18 months of political acrimony, new investment commitments in renewable energy have fallen short of the level required to meet the target. As a result, LGCs last month spiked to nearly $90 per MWh, just below the statutory penalty of $93 per MWh retailers would pay if they did not take part in the scheme.



Grattan Institute energy director Tony Wood said there was uncertainty about whether the target would be met through projects yet to be developed. "And if the target is not met, whether consumers will just end up just paying something for nothing, that is the penalty for not meeting the target,'' he said.

With 6000MW of new large-scale generation capacity — the same amount built since 2001 — required to meet the 2020 target, analysts warn that at least half of it should be committed this year or early next year. But less than 2000MW of the required 3000MW for 2016 has been committed to or is likely to be committed to this year.

The difficulty in building the target of about 23.5 per cent from the current level of 12.75 per cent comes as Bill Shorten took a target of 50 per cent renewable energy by 2030 to the July federal election. Victorian and Queensland Labor governments have announced renewables targets of 40 per cent by 2025 and 50 per cent by 2030 respectively. Under a compromise between the government and Labor the 2020 target was scaled back from 41,000GWh by 2020 to 33,000GWh, or about 23.5 per cent. The RET steps up each year with this year’s target of 21,431GWh, rising to 26,031GWh in 2017, 28,637GWh in 2018 and 31,244GWh in 2019.

Mr Wood said the RET had been a very poor policy, “very poorly designed, partly because it was always based on a forecast and it has been subject to continual change ever since it was created’’.

He said one of the key problems with the scheme was that the effective subsidy available through the LGCs was due to end in 2030.

“As the cliff face has been approaching, the number of years you can get a return on a renewable energy project is diminishing, and not surprisingly the price has been going up,’’ Mr Wood said.

The Clean Energy Regulator, which oversees the scheme remains confident the targets can be reached. In industry briefings it has cited the fact 8000MW wind and 2500MW solar projects have obtained development approval.

Clean Energy Council policy manager Tom Butler said spot prices weren’t necessarily indicative of the market, calling them a “relatively thinly traded commodity”.