



Let's end the political impasse on the renewable energy target

Green energy
The two sides are a lot closer, but the continued deadlock over the RET scheme means the industry will have to scramble to catch up when a deal is finalised.



Innes Willox

Continued indecision and deadlock over the renewable energy target is strangling investment and exposing energy users to higher costs.

The target's intended aim was to drive and sustain greater use of solar energy and wind power without a significant cost to consumers. But for more than a year it has been under a cloud and becalmed by political uncertainty.

There is no more time to waste: the government and the opposition should move to immediately end the impasse and strike a deal to reform and renew the RET. They are very close, but they need to go the extra mile.

At one point there was a yawning gulf between the two sides. Now there is apparent agreement that emissions-intensive trade-exposed industries (EITEs) should be fully exempted from the scheme and that support for household solar should remain, gradually phasing down as previously planned.

The remaining disagreement is over the level of the large-scale component of the target: whether it should be lowered from the current 41 terawatt hours in 2020 to the "low to mid 30s" or the "mid to high 30s".

Neither side need move far to secure a deal. The negotiators themselves have been

acting in good faith. But there are others on each side of the policy debate who seem to imagine that further delay advantages them, making their opponents look worse or their preferred solution inevitable. They are playing with fire.

Large-scale renewables investment dropped 88 per cent in 2014, with serious consequences for jobs and investment at a time when the Australian economy is worryingly weak and other construction projects are thin on the ground in the wake of the resources boom.

The standstill also means that any targets become harder and more expensive to meet later on, if and when uncertainty is resolved.

Energy users would face a double whammy. They would pay higher direct costs for the RET, as scarcity of large-scale generation certificates and a sudden rush to construction drove up prices. And they would get lower indirect benefits from the RET, with less renewable generation meaning less downward pressure on wholesale electricity prices.

The longer a deal is delayed, the worse these problems become. Large investment commitments are needed in 2015 if any plausible 2020 target is to be achieved, and those commitments won't happen without a rock-solid bipartisan scheme.

But another deadline is even closer. EITE industries such as aluminium and steel have seen serious challenges to their competitiveness in recent years. A reduction in the costs they face is essential. Converting their current partial exemption from the RET into a full exemption would be a welcome boost in a difficult commercial environment. But scheme rules mean that if these changes aren't agreed by the end of March, it will become ever more difficult to grant any relief before 2016.

The outlines of a sensible deal are clear: it would trim the large-scale target to levels

that are achievable by 2020, but avoid deeper cuts that would ultimately leave energy users worse off according to most modelling. The parties are not far off each other here, and it would be unwise to let an agreement slip away over a couple of terawatt hours.

The deal also needs to ensure the current surplus of scheme certificates is rapidly reduced to avoid damaging existing investments. And it should lock in the full exemption for EITEs.

To rebuild investor confidence and ensure the targets can be delivered, the agreement should rule out further target

reductions. But the question of whether or not to increase the targets in future should be part of the broader debate about Australia's potential post-2020 emissions reduction targets and how to achieve them.

Within these reasonable parameters there remains room for argument over detail. But the time for such arguments is rapidly running out. An agreement is urgent, and both sides need to come together in the national interest.

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NR AFRGA1 A059

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