

28 June 2007

Submission No: 125

The Department of the House of Representatives
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Sir/Madam

Submission to the House of Representatives Standing Committee on Industry and Resources

Integral Energy welcomes the opportunity to provide the enclosed contribution to the House of Representatives Standing Committee on Industry and Resources inquiry into the development of the non-fossil fuel energy industry in Australia.

Integral Energy distributes and retails electricity and value added related services to over 2.1 million people in households and businesses across a network franchise area of 24,500 square kilometers in Greater Western Sydney, the Blue Mountains, the Illawarra and the Southern Highlands of NSW. This submission will respond to those areas within the terms of reference to which Integral Energy has experience, influence or future plans.

As an energy company, we believe that climate change presents the greatest environmental challenge to fulfilling our commitment to future generations. Within the context of maintaining our obligations to the shareholder for a commercial return, we are working to reduce our carbon footprint while empowering our customers to make more sustainable power choices.

It is recognised that government incentives to the renewable industry have helped create an initial market for renewable generation. To ensure ongoing sustainability, incentives need to be continued and streamlined to reduce the cost of compliance while providing long term market certainty.

Should we be able to provide further input into the Committee's process, please contact Denise Corish, Manager Corporate Environment on 9853 6556.

Yours Sincerely,



Richard Powis
Chief Executive Officer

Attachment: Submission to the House of Representatives Standing Committee on Industry and Resources

Going further for you is what we do

Integral Energy

Submission to the House of Representatives Standing Committee on Industry and Resources

Integral Energy welcomes the opportunity to contribute to the House of Representatives Standing Committee on Industry and Resources inquiry into the development of the non-fossil fuel energy industry in Australia.

By way of introduction, Integral Energy distributes and retails electricity and value added related services to over 2.1 million people in households and businesses across a network franchise area of 24,500 square kilometers in Greater Western Sydney, the Blue Mountains, the Illawarra and the Southern Highlands of NSW. This submission will respond to those areas within the terms of reference to which Integral Energy has experience, influence or future plans.

As an energy company, we believe that climate change presents the greatest environmental challenge to fulfilling our commitment to future generations. Within the context of maintaining our obligations to the shareholder for a commercial return, we are working to reduce our carbon footprint while empowering our customers to make more sustainable power choices. In recognising our role in responding to climate change, Integral Energy wishes to emphasise that renewable energy is only part of a broader solution of market-based and policy mechanisms to guide the reduction of greenhouse gas emissions.

Formulating a sensible policy that will achieve the desired reductions of greenhouse gas emissions against a backdrop of forecasted growth and demand is a complex exercise. Analysis must involve assessment of a range of factors, from government investment to the impacts of renewable technologies, the relative costs of investing in renewable technology, demand management, the regulatory burden and the cost of compliance. Integral Energy strongly supports expanded government action to develop and support a sustainable energy industry in Australia. In this we believe that the federal government needs to adopt a whole of issue approach, incorporating broad consultation across a number of industries, and (possibly) the adoption of a range of strategies (not limited to the development of renewable technologies) which will contribute to a sustainable future for Australia and the mitigation of greenhouse gases.

Apart from numerous small scale (generally solar) units, Integral Energy is not otherwise directly involved with the generation of renewable energy. Additional involvement in the sector includes ongoing support for a number of renewable generators including the Hampton Wind Park and the Port Kembla wave generator. We are also currently a party to a consortium of organisations participating in the federal government's Solar Cities program in Blacktown.

From a retailing perspective, supply for our renewable energy products is sourced from a variety of renewable resources; wind, solar, hydro, and biomass. Procurement is via specific power purchasing agreements (PPA) or from the market. Public demand for renewable energy is increasing exponentially and is providing, we believe, a strong demand side stimulus for further investment and development of new renewable energy supply. Integral Energy expects that the rate of take up will continue to increase, given the heightened public awareness and increasing mandatory requirements in various States.

Integral Energy accepts in principle the proposition put forward by many, that government policies should be endorsing a least cost, technologically neutral approach. This would ensure

a socially efficient outcome; investors then have the freedom of making investment decisions from a range of technologies based on the comparative marginal costs of production.

However we also believe that current market conditions are not reflective of a level playing field in that the true costs of production are largely ignored. This in turn leads to market distortions and has an impact on the decisions made by both producers and customers.

Fossil fuels are currently not priced at their true cost; externalities such as greenhouse gas emissions are not costed into the market price of fossil fuel energy sources. If the cost of carbon can be internalised, the playing field between non fossil and fossil fuels would be more comparative, and thus competitive. Where prices are not reflective of the true cost, development of the renewables industry would be disadvantaged relative to conventional energy generation types.

Government incentives to the renewable industry have helped create an initial market for renewable generation. To ensure ongoing sustainability, incentives need to be continued, and the duplication of Federal and State reporting schemes needs to be revised. Integral Energy considers the disproportionate cost of compliance as a major barrier to market take up of renewable technologies. Integral's experience suggests that a national scheme would be the most efficient mechanism of regulation. National coordination and the simplification of existing systems would streamline the transition process once the cost of carbon has been incorporated. Such changes would also facilitate uptake of renewables by providing the increased investment certainty required for long term development. The costs and benefits of participation in the various Australian regulatory regimes are noted below.

The energy retailer is generally the body responsible for implementing government renewable energy initiatives. The cost of compliance is thus borne by the retailer, which in turn influences the generation/ investment mix. Without an assured secondary income stream (other than the sale of energy), the incentives to invest may not be sufficient. An example of secondary income may be the creation and sale of abatement certificates via a long-term scheme.

The costs and benefits of participation in current regulatory regimes are noted below.

Table 1 - Regulation and reporting schemes

Scheme	Positives of participation	Negatives of participation
Mandatory Renewable Energy Target (MRET)	<ul style="list-style-type: none"> ▪ Encourages investment in renewable technology ▪ Offers greater market certainty for investors in renewable generation ▪ Positive public perception of company 	<ul style="list-style-type: none"> ▪ Reporting burden: Quarterly reporting is time and resource intensive ▪ Given the lag time between investment decisions and profitability, schemes must be long term for marked success
NSW Greenhouse Gas Abatement Scheme (GGAS)	<ul style="list-style-type: none"> ▪ Pioneering – It was one of the world's first emissions trading systems ▪ Encourages investment in renewable technology ▪ Offers greater market certainty to investors in renewable generation ▪ Positive public perception of company 	<ul style="list-style-type: none"> ▪ Reporting requirements are not fully aligned with other schemes resulting in increased cost of compliance
ACT Greenhouse Gas Abatement Scheme (ACTGAS)	<ul style="list-style-type: none"> ▪ Encourages investment in renewable technology ▪ Offers greater market certainty to investors in renewable generation 	<ul style="list-style-type: none"> ▪ Limited constituency; high cost for limited gain ▪ Reporting requirements are not fully aligned with other schemes resulting in increased cost of compliance

Scheme	Positives of participation	Negatives of participation
Green Power – Accredited Retailer Energy	<ul style="list-style-type: none"> ▪ Encourages investment in renewable technology ▪ Offers greater market certainty to investors in renewable generation ▪ Encourages retail uptake due to increased customer certainty ▪ Positive public perception of company 	<ul style="list-style-type: none"> ▪ Cost of compliance

Integral Energy recognises that renewable generation is a critical element of the overall future generation mix, and requires continued stimulation. Currently, aside from the Federal renewable scheme (MRET), there is also the Victorian scheme (VRET), the proposed NSW scheme (NRET) and the proposed Queensland renewables and low emissions scheme.

Participation in each scheme demands specific reporting requirements which are not fully aligned across all schemes. The cost of complying with each of the schemes is high, particularly among energy retailers. Integral Energy believes the simplification of the renewable reporting regime would allow stronger growth and expansion of the renewable sector and lower cost delivery.

Demand management programs also need to be a key part of the industry and governments' response to climate change, notably the management of the load profile and overall growth of electricity demand. Integral Energy has undertaken a strategic approach to demand management and actively works with commercial and residential customers to increase efficiency and reduce peak demand. By pricing carbon and recognising abatement activities, demand management will become increasingly attractive, particularly for large customers, which may be able to generate carbon credits through activities that reduce energy consumption.

In recognition of the role of all levels of government in supporting the development of the renewable industry, our policy recommendations are listed below.

- The continuation and expansion of a single scheme to support the development and uptake of renewable energy. A single regulated system will enhance industry's transition to an emissions trading scheme.
- Introduction of a national emissions trading system; market-based mechanisms form an essential part of a comprehensive, economically viable and environmentally responsible response to climate change.
- Demand management programs, including energy efficiency and reduction in peak demand, must be a key element in the response to climate change.
- Broad consultation with industry, consumers, investors and academia is of critical importance in designing optimal outcomes. Integral Energy would like to draw attention to the significant work carried out in 2006 by the State and Territory Governments' National Emissions Trading Taskforce (NETT) in preparation of the *"Possible Design for a National Emissions Trading Scheme."* The market model proposed by the NETT is the result of extensive consultation and thorough research and, we believe, presents a balanced and economically efficient approach to emission reductions. Such a thorough and inclusive approach will ensure that a valid and acceptable policy approach to renewable energy is reached.