

AGL Energy Limited

The Importance of Reforming the Renewable Energy Target

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Clean Energy Council Annual Conference

May 2010

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Agenda

- › Importance of the 26 February reforms
- › Sustainable Energy within the context of global energy market transformation
- › Renewable Energy Target:
 - » MRET and the reforms of 2009
 - » Unintended consequences of complementary policies
 - » Reforms announced on 26 February
 - » Fundamental shift in supply options
- › Downstream customer impacts:
 - » Impacts on prices

Importance of the 26 February reforms

- › 26 February reforms of the Renewable Energy Target were welcomed by the industry
- › There are serious consequences flowing from any delay in passage of the legislation:
 - » Loss of jobs
 - » Loss of investment confidence
 - » Flow on effects for confidence in energy policy generally
- › Objective of the reforms have bipartisan agreement
- › No reason why the legislation should not be passed immediately

Transformation of Global Energy Markets



Energy Market Transformation

Global energy markets are undergoing significant transformation. Energy policy makers are responding to three key issues:

Issue	Global Policy Response	Australian Policy Response
Climate Change	Greenhouse gas emissions trading	CPRS (deferred)
Energy Security	Renewable energy targets	20% Renewable Energy Target
Fuel Poverty	Energy efficiency schemes	Emerging state-based schemes

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Global policies driving renewable investment

Since mid-2009, a number of new policies have been announced that will drive renewable investment – Australian policy is consistent with global trends

Country/State	Renewable Mandate
Spain	22.5% renewable by 2020
US – Colorado	30% renewable by 2020
US - Alaska	50% renewable by 2025
Israel	10% renewable by 2020
Kuwait	5% renewable by 2020

» Source: DB Climate Change Advisors

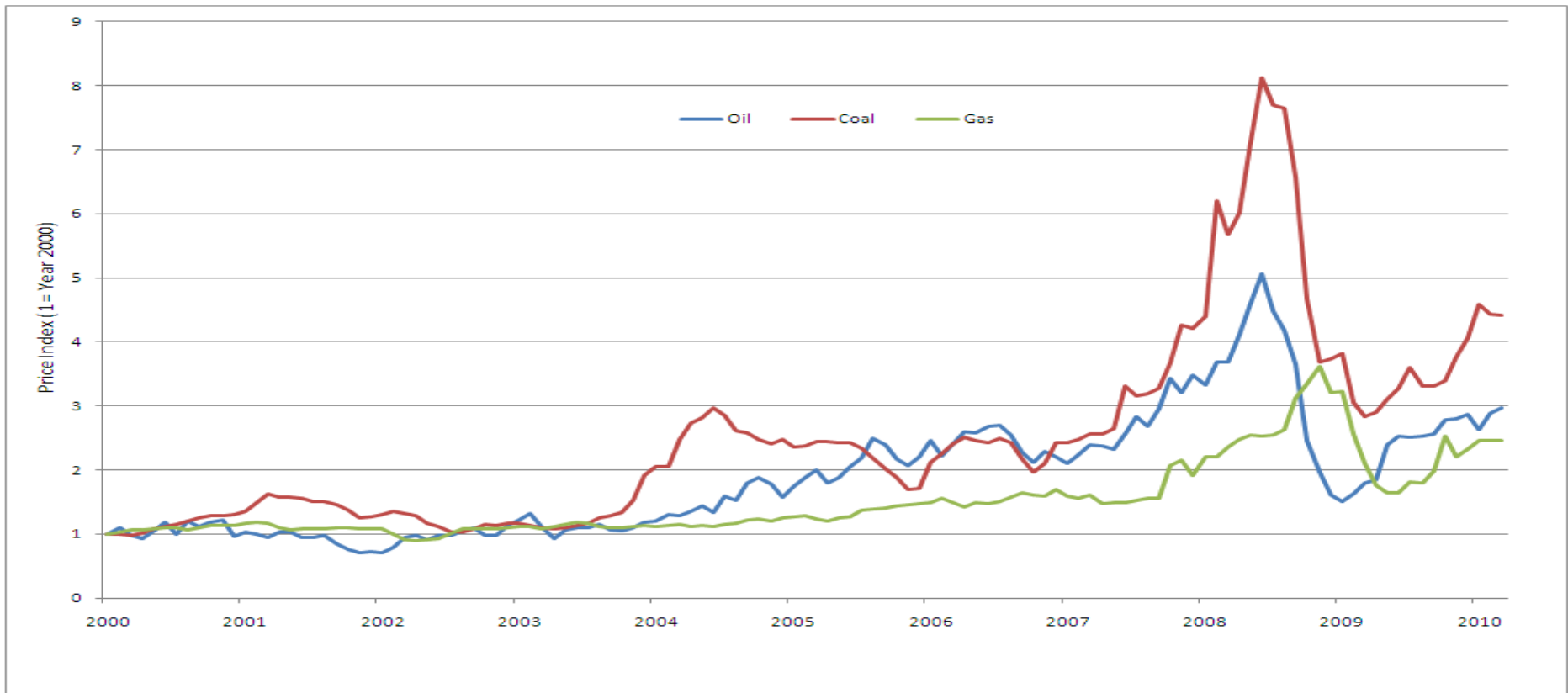
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Renewables provide fuel cost certainty

In an environment of increasing global commodity prices, renewable technologies provide certainty of fuel cost

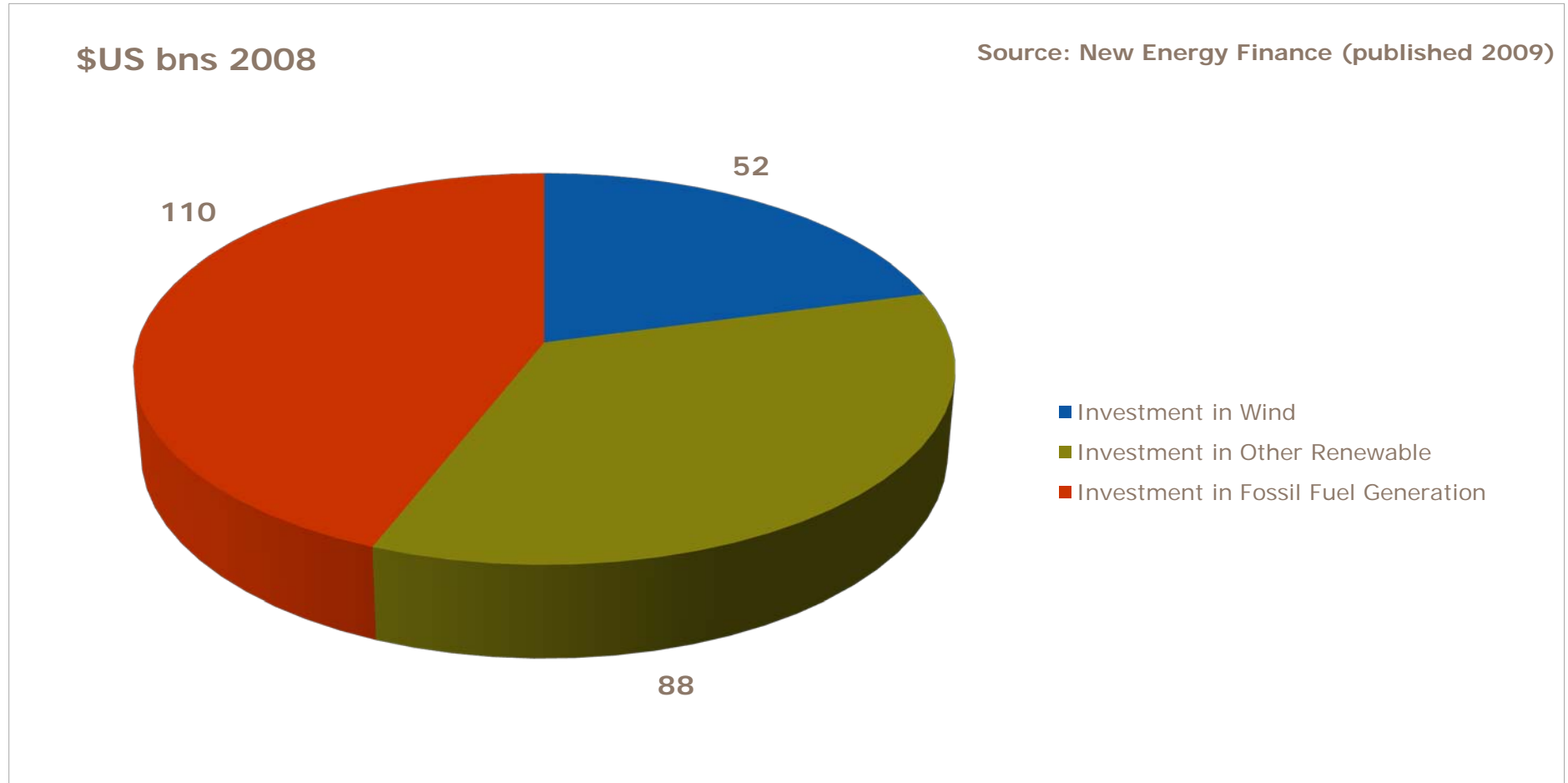
Source: Bloomberg (2010)



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New investment

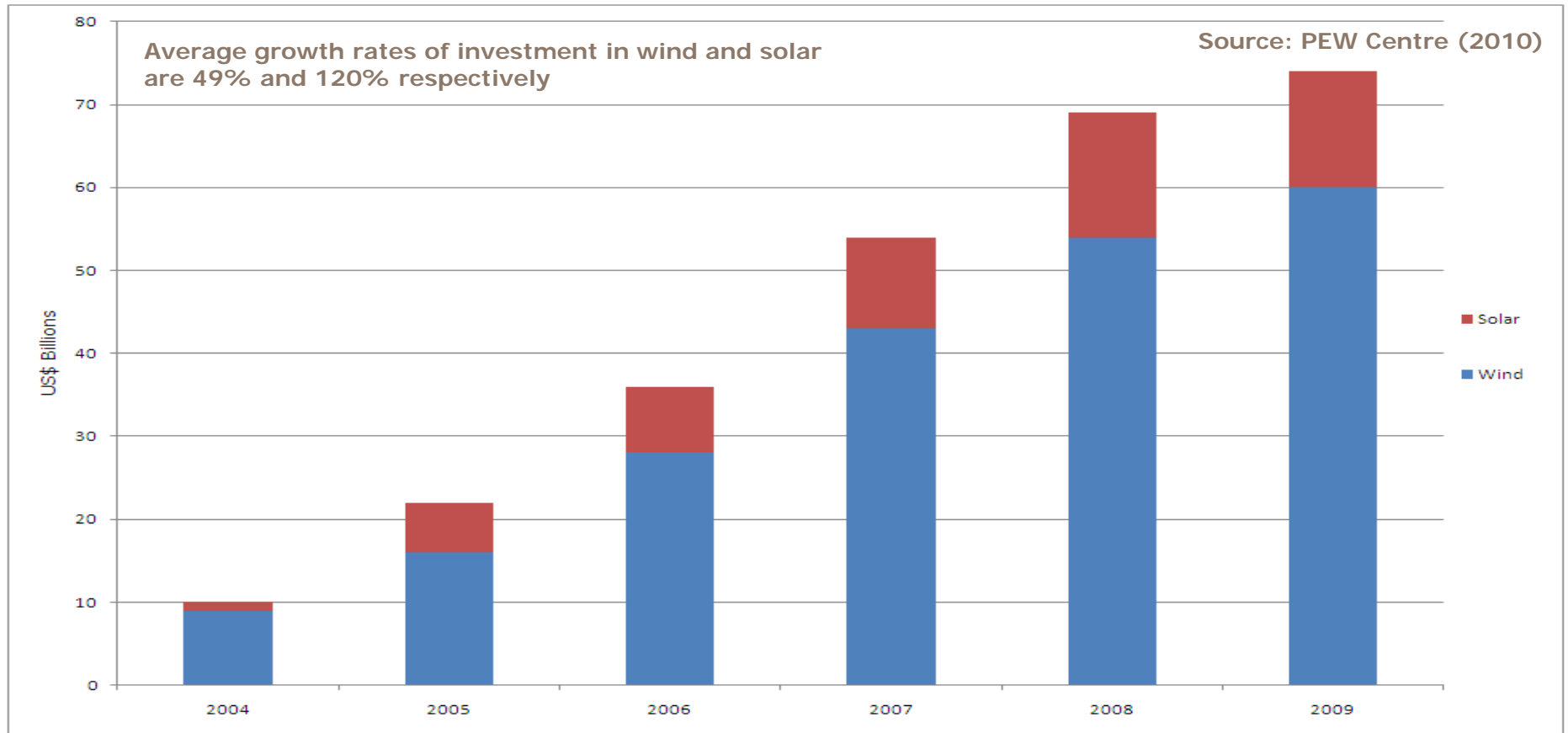
More than half of new installed capacity globally was renewable



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Investment in renewable technologies

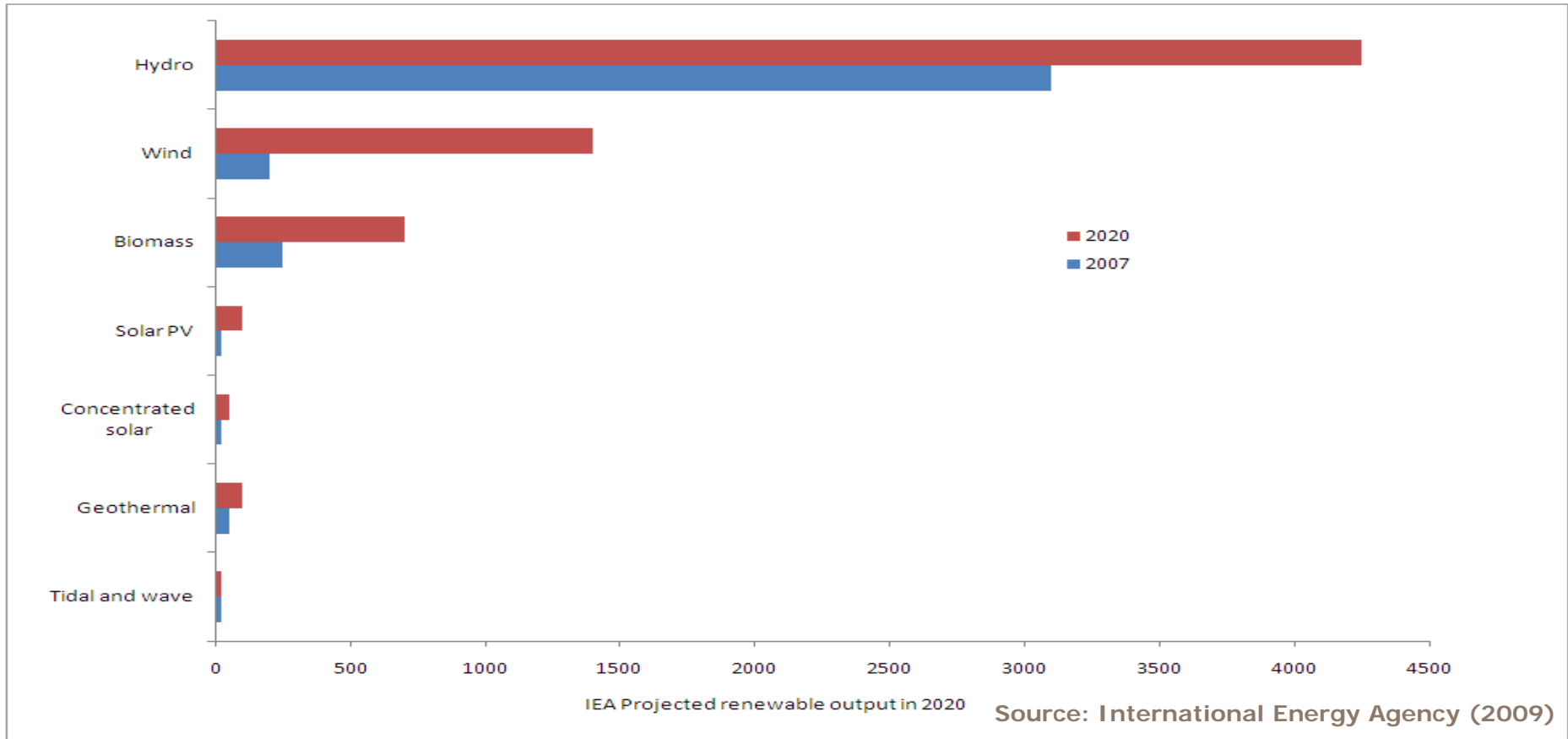
All technologies have a role to play – growth in global investment has been significant particularly for wind and solar



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Trend is forecast to continue

Wind and biomass forecast by IEA to be the technologies of choice in developed countries through to 2020



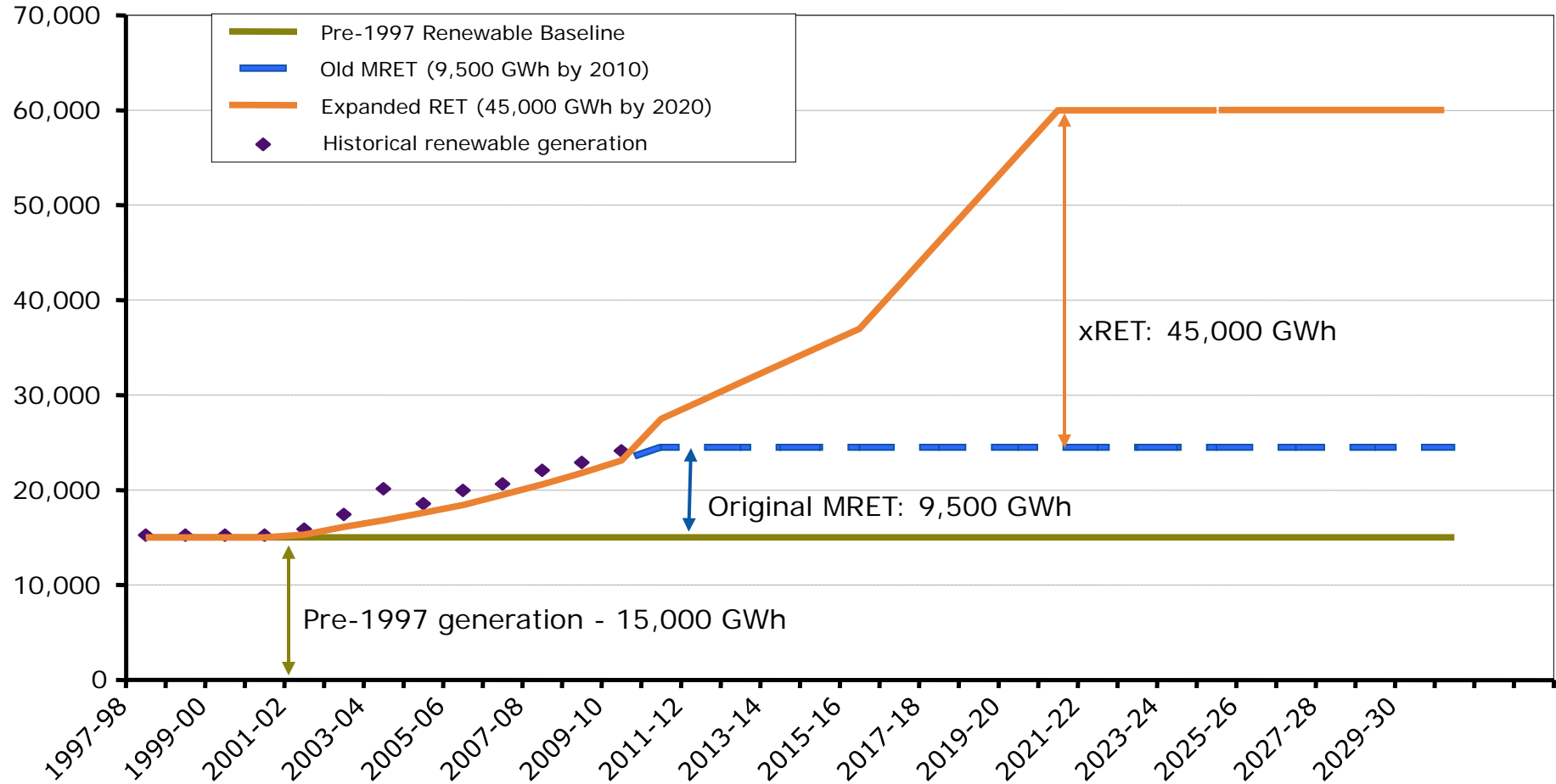
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The Evolution of
Renewable Policy –
MRET to RET to....



The Expanded Renewable Energy Target...

Renewable Target
(GWh)



Source: Roam, AGL Corporate Affairs

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Role of complementary policies

- › Additional subsidies for solar hot water and solar PV have driven substantial uptake of these technologies in recent years
- › Recent example: solar hot water

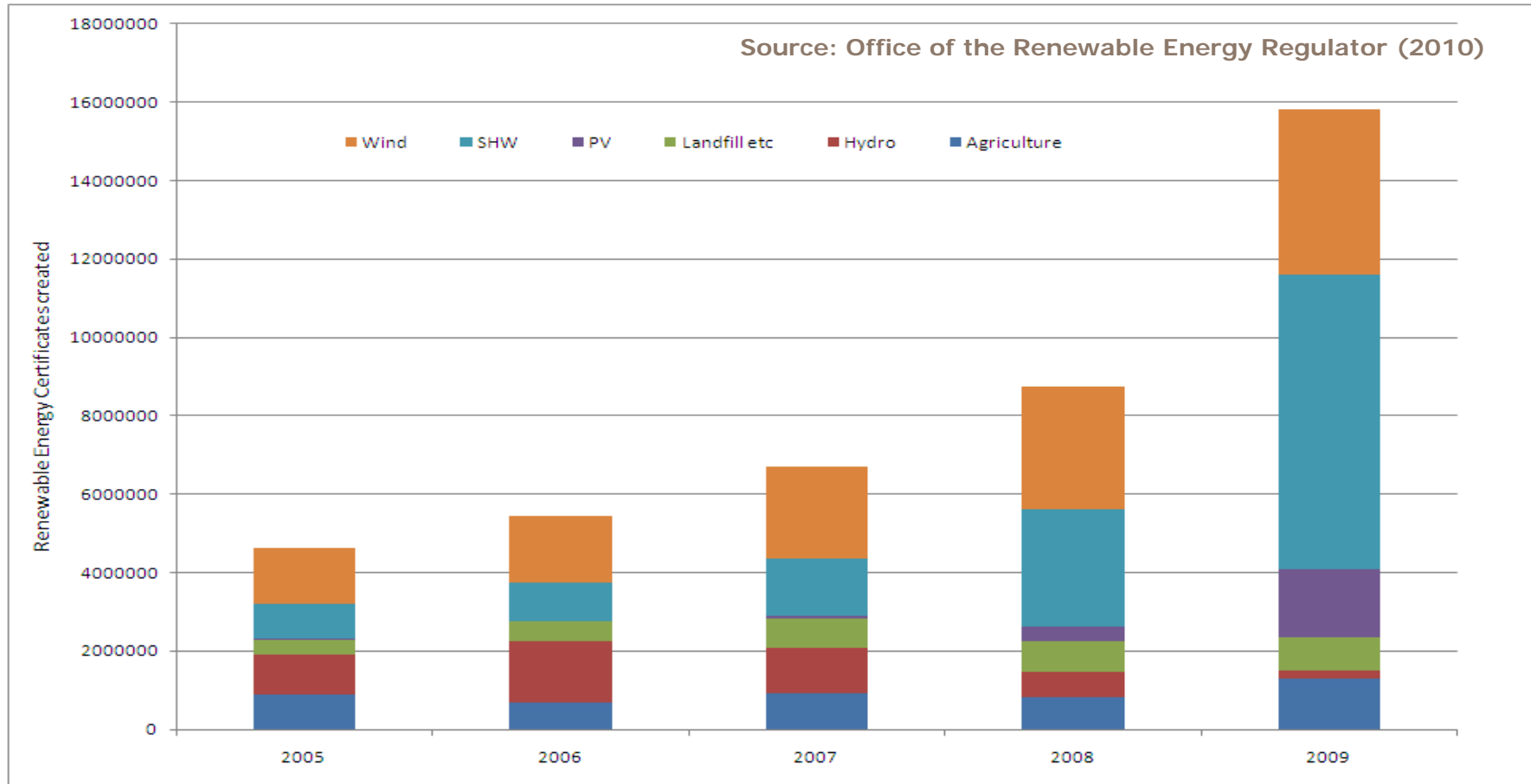
Rebate	State Incentives	RECs	Total Subsidies
\$1,600	\$500	\$910	\$3,010

- › Recent example: solar PV

FiT	RECs	Total Subsidies
\$10,500	\$4,650	\$15,150

Historical REC creation

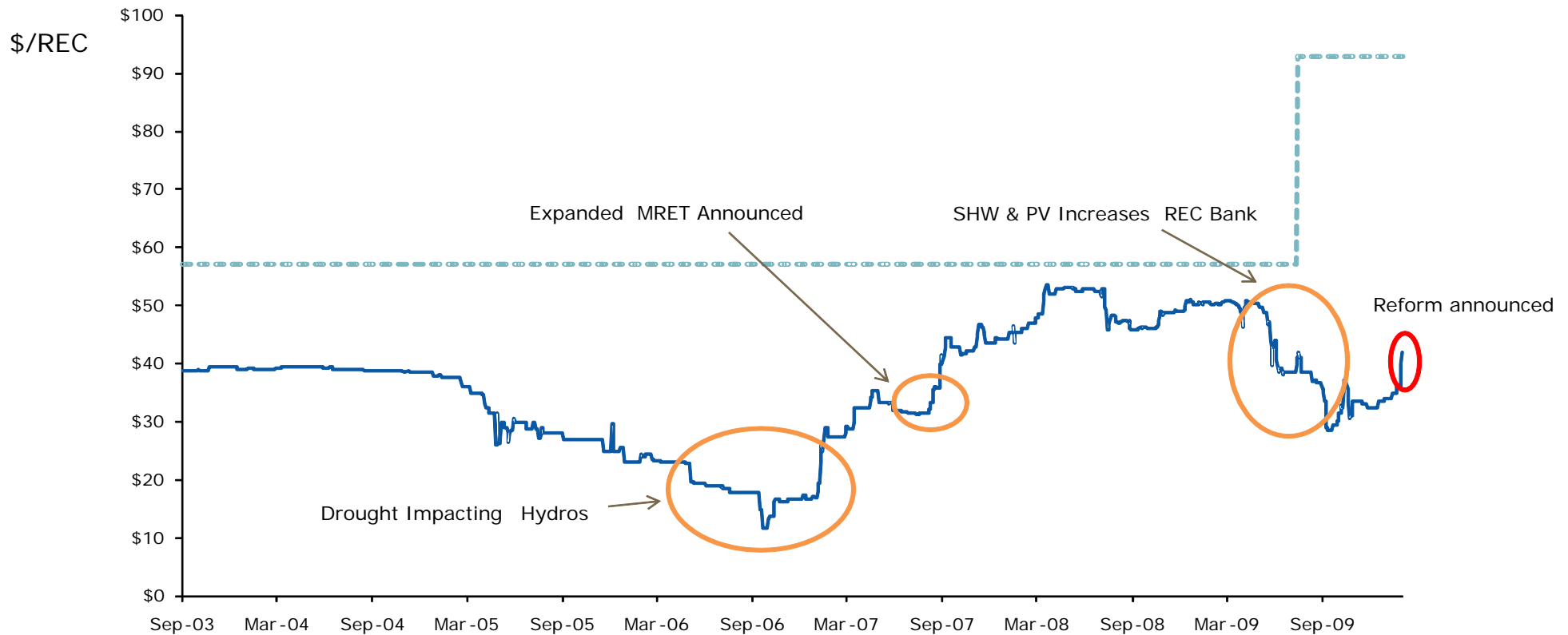
RECs from SHW and solar PV grew substantially due to complementary policies. This negated the need for new investment.



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Role of complementary policies

REC prices declined substantially as complementary policies drove creation of RECs from SHW and PV preventing new investment



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Reforms of 26
February – Driving
Growth in Renewables

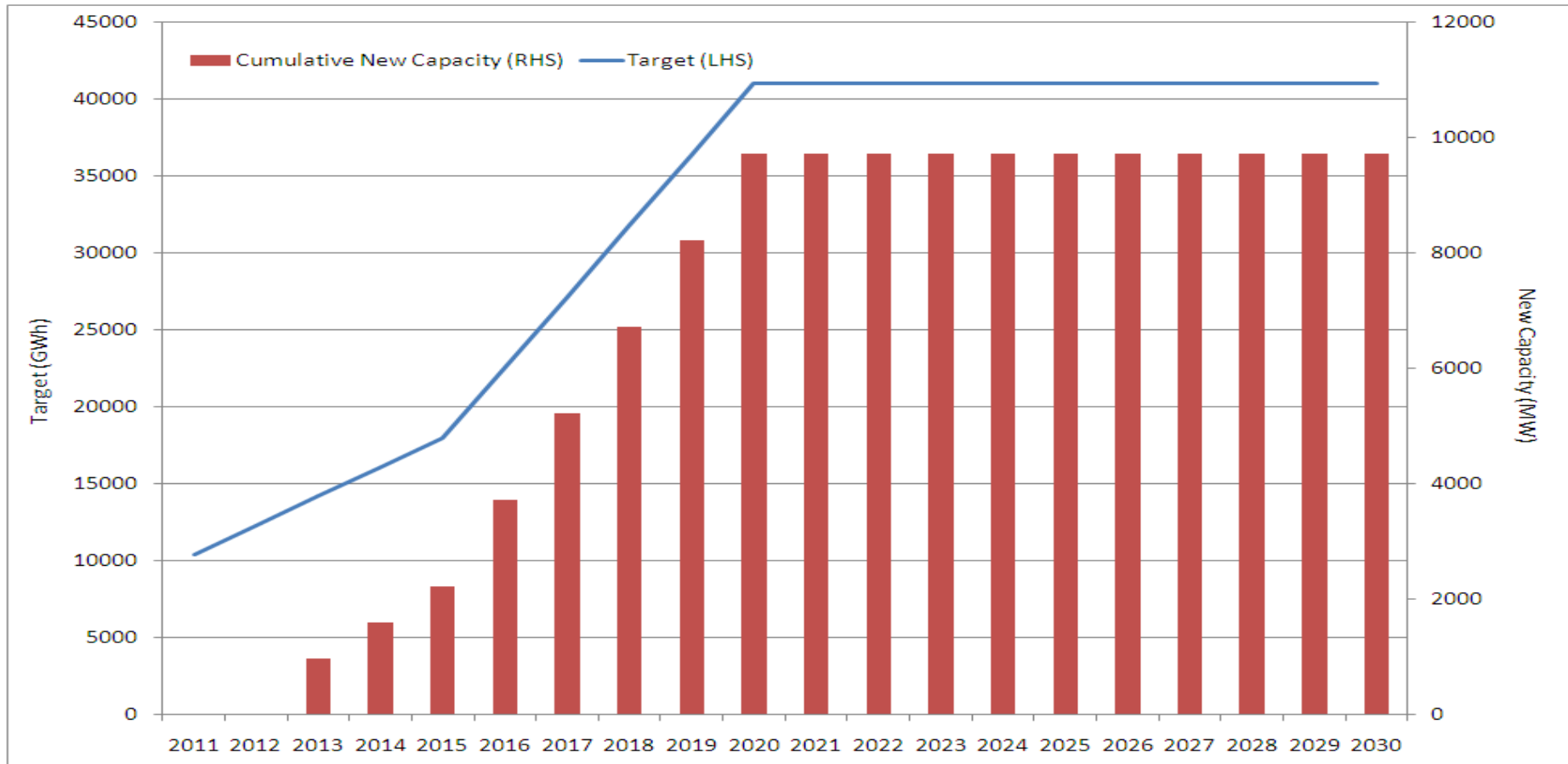


Small scale renewable energy scheme (SRES)

- › Small scale renewable energy scheme
 - » Fixed \$40 per certificate price for solar PV and solar hot water
 - » All other technologies remain in the LRET
 - » Uncapped quantity
- › Similar to 'feed-in tariff'
- › Uptake dependant upon numerous factors including
 - » Ongoing complementary policies such as feed-in tariffs and capital rebates

Large scale renewable energy target (LRET)

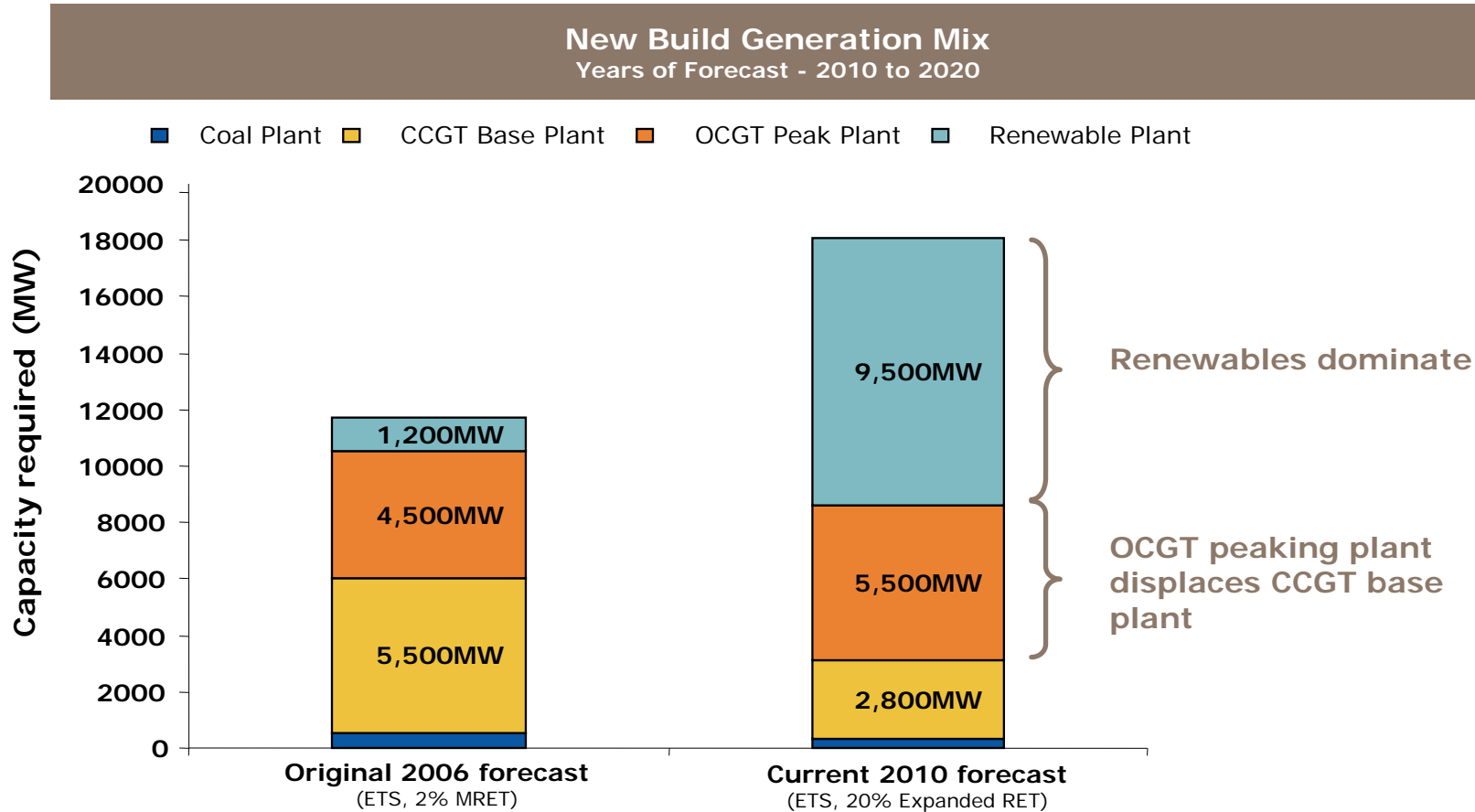
LRET to drive investment of up to 10,000 MW of new renewable investment



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Impact of Renewable Policy Setting

Fundamental changes required to generation mix.

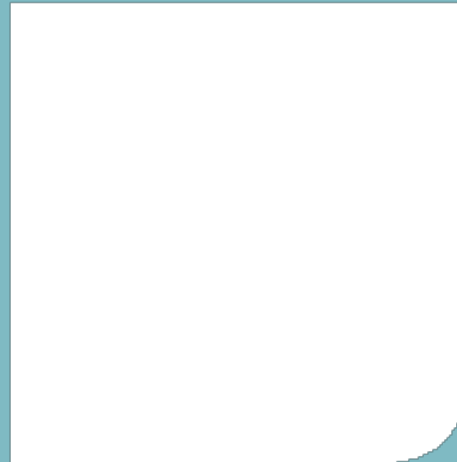


Source: AGL Greenhouse modeling

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Downstream Customer Impacts



Cost impacts - LRET

- › At a REC price of \$90, impacts of LRET are estimated to be about 1% pa (real) on electricity bills over the next decade
- › This should be contrasted with recent price increases driven by network charges of 10-15% (real) pa for three years
- › Important conclusion: renewable targets are only a minor contributor to rising electricity prices

Conclusion

- › 26 February reforms of the Renewable Energy Target were welcomed by the industry
- › There are serious consequences of the legislation not being passed before a Commonwealth election
- › Objective of the reforms have previously had bipartisan agreement
- › No reason why the legislation should not be passed immediately
- › With the legislation passed, the industry is ready to commit billions of dollars with associated increases in employment and economic activity

Further information

AGL Sustainability Report (online and concise summary)

www.aglsustainability.com.au

AGL Sustainability Blog

<http://aglenergy.wordpress.com>

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