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Mr. Dick Warburton
Chairman
Expert Panel
Review of the Renewable Energy Target
Department of Prime Minister and Cabinet

24th June 2014

Dear Mr. Warburton,

Thank you for meeting IGCC recently with your colleagues Ms. Int'Veld and Mr. Fischer on May 27th regarding the Renewable Energy Target Review. We are following up on the concerns of the IGCC and the $1 trillion of invested capital our membership represents, regarding potential changes to the RET and also wish to elaborate on some of the points raised during our meeting. Specifically:

- Multiple IGCC members have current and future investments, made on behalf of their beneficiaries, at risk pending the outcome of the RET Review. Significant investments are likely to be compromised if the current 2020 41,000 GWh Large Scale Renewable Energy Target is reduced. A potential reduction in the RET introduces sovereign risk in a manner that is highly unusual in Australia's investment environment.

- We are seeking more low carbon investment opportunities for our portfolios in Australia and see the RET as potentially the only substantial climate and energy policy that will remain on foot to support those investments. For these reasons it remains our view that the RET should not be materially reduced.

- Some of the views posed by Panel members during our meeting on the reasons for reducing the RET, including that the RET is an inequitable subsidy to renewable energy companies and that the RET is compromising the competitiveness of trade exposed Australian industry warrant further comment.

- We note that the ACIL-Allen modeling indicates that the cost implications for energy users tend towards savings over the medium term if the RET is maintained or strengthened and therefore there is a very strong case for maintaining the large-scale target.

- From an investor perspective, given recent delays in developing renewable energy assets, we note that extending the 41,000 GWh target to beyond 2020 may best support an orderly capital deployment process in the market.

Existing investments

Aware of the need to access low carbon investment alternatives in our portfolios, we have sought to respond to Federal Government policy settings that enable these investments to be made. Our expectation was that the LRET had bi-partisan support at a level of 41,000 GWh by 2020 and investments requiring long-term investment horizons of over twenty years were undertaken on that basis.

Multiple IGCC members invested in renewable energy assets on behalf of their superannuation fund beneficiaries, as a result of the current 2020 Renewable Energy Target. For example, the retirement accounts of some five million Australians are financially exposed to these assets via their Australian based superannuation funds, which hold equity stakes in the Australian energy company, Pacific Hydro.

Many IGCC members also have public equity exposures to Infigen Energy and private equity exposures to companies that operate in renewable energy markets in Australia. Additional exposures are held via infrastructure asset managers.

It is our expectation that reducing the LRET will affect the financial performance of assets already built and operating under the scheme. This will likely be the result of lower revenue, greater difficulty in servicing debt obligations, lower or no distributions to investors and negative movements in periodic asset valuations, directly flowing through to investment and retirement account balances.

These issues will especially impact investors that rely on market prices for RECs, do not have broad portfolios of energy assets or do not have vertically integrated business models. Price risk can never be fully hedged by investors with these exposures and changing the RET will disproportionately impact these investors in the renewable energy market.

Further we believe that reducing the LRET will cause losses for investors in development assets that have stalled due to uncertainty over the future of the scheme. These investments were also undertaken with reasonable expectations about the 41,000 GWh LRET remaining in place.

We call on the Review Committee to consider the financial consequences of a potential recommendation to reduce the RET and address them in their report to Government.

Future investments

Institutional investors recognize that reducing the emissions exposures in their portfolios is a strategic investment priority in the interests of long-term returns to their beneficiaries. As a result, Australian based investors are actively seeking low carbon investment opportunities.

Without a carbon price, the RET will be the primary electricity sector decarbonisation policy in Australia and would be relied upon to provide access to low carbon energy assets in the Australian market. Without a strong LRET the ability of local investors to access low emissions assets on behalf of their beneficiaries will be greatly constrained, increasing portfolio risks.

It is clear to us that emissions must be reduced and that nations around the world are moving to decarbonize their energy markets. Finding suitable investment opportunities is therefore a priority.

Given the delays in development and financing of large-scale projects, from an investment perspective, maintaining the LRET target, but pushing out the date for meeting the target would allow a more orderly participation of the investment sector in the delivery of low-emissions energy assets.

Concerns raised by the Review Panel about the RET

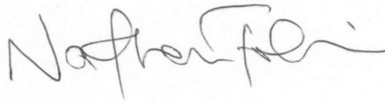
During our meeting, Panel members highlighted two issues of concern relating to the RET in its current form: (i) that renewable energy was receiving inequitable subsidies in Australia under the RET, and (ii) that trade exposed businesses were subject to undue cost pressure as a result of rising electricity costs which were argued to be a result of the RET.

While IGCC agree that subsidies can distort markets, we consider that the subsidization of all energy sources must be considered when judging the distortionary impacts. We note that fossil fuel based energy sources for stationary energy generation and transport benefit from subsidies in Australia from both the Federal and State Governments. We are aware of these subsidies because we invest in the companies that benefit. Internationally the level of subsidization of emissions intensive energy sources totaled $544 billion in 2012 according to the International Energy Agency, far above renewable energy subsidies of $101 billion.[1] These differences in subsidization between energy sources influence private sector investment decisions in favor of emissions intensive energy. It is our view that the RET simply reduces the level of subsidy distortion in favor of emissions intensive energy sources, providing what we understood to be viable investment opportunities in Australia.

On the question of RET price impact on trade exposed companies, we note that exemptions are received by trade exposed companies at the same rates as carbon price transitional assistance under the Clean Energy Future Act, being 96% and 66% depending on emissions intensity respectively. These protections ensure that the any short term wholesale energy price increase as a result of the RET is virtually eliminated for trade exposed companies.

We thank the Review Panel for their further consideration of the implications of potentially reducing the RET for private investors in renewable energy markets.

Yours faithfully,



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[1] IEA World Energy Outlook 2013, pages 93 and 226