

## Discussion Paper – Enhancing the Renewable Energy Target

### Overview

This submission template should be used to provide comments on:

#### ***Australian Government Discussion Paper – Enhancing the Renewable Energy Target, March 2010***

The purpose of the discussion paper is to outline the Government's policy on the new RET design and to seek stakeholder views on implementation aspects.

### Contact Details

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<b>Date:</b>	14 April 2010

### Confidentiality

All submissions will be treated as public documents, unless the author of the submission clearly indicates the contrary by marking all or part of the submission as 'confidential'. Public submissions may be published in full on the Department of Climate Change and Energy Efficiency website, including any personal information of authors and/or other third parties contained in the submission. If any part of the submission should be treated as confidential then please provide two versions of the submission, one with the confidential information removed for publication.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

**Do you want this submission to be treated as confidential?**     Yes     No

### Submission Instructions

Submissions should be made by **close of business 14 April 2010**. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address - [\*\*RET@climatechange.gov.au\*\*](mailto:RET@climatechange.gov.au).

Submissions may alternatively be sent to the postal address below to arrive by the due date.

Renewable Energy Target section  
Department of Climate Change and Energy Efficiency  
GPO Box 854  
CANBERRA ACT 2601

## SRES Implementation Options

### Establishing a clearing house mechanism

*Would liable entities and SREC suppliers want the flexibility of trading outside the clearing house?*

The Clean Energy Council (CEC) supports the Optional Clearing House Model proposed in the paper. Such a model will allow maximum flexibility for both eligible parties and liable entities to enter into arrangements that suit both their needs.

The CEC does still have a number of questions concerning the operation of the Clearing House:

1. Who will run and pay for the clearing house?
2. How will the administration costs of the Clearing House be met?
3. Exactly when are eligible parties paid for the SRECs they produce?

## SRES Implementation Options

### Providing certainty to liable entities – determining annual liability

*The Government is seeking views on which of the options above or other options would provide adequate certainty for electricity retailers and other liable entities under the RET.*

The CEC supports the publication of the SRES Renewable Power Percentage (sRPP) based on estimates of supply and demand at the start of each year, along with a true up mechanism for the following year (Option 2). This option will allow energy retailers to better estimate their liability in advance and so be able to set their tariffs for the year based on these estimates, giving more certainty to the marketplace.

The CEC contends that similar to the ongoing operation of the LRET, where it is possible for liable entities to form a reasonable view of future Renewable Power Percentages (RPPs) and thus plan to manage compliance costs, the Office of the Renewable Energy Regulator (ORER) should be charged with responsibility to provide guidance on the upper and lower bounds of future sRPPs. In the absence of such information, liable entities will struggle to appropriately cost recover in contracts for supply that go beyond the current compliance year. It is of paramount importance that market participants can form a reasonable view of the future sRPP values, in order for retailers to appropriately pass costs on to consumers and for large users to manage their cost base.

As it appears that eligible parties who use the Clearing House will only receive their payment when those SRECs are transferred to the liable entities, it is essential that all SRECs in the Clearing House are time stamped and are used on a “first-in first-out” basis to ensure that the earliest SRECs are retired first to minimise the delay in payments to households and the cost of carry to intermediaries.

## SRES Implementation Options

### **Ensuring the timely purchase of RECs – annual or periodic surrender of RECs**

*Would periodic surrender give SREC holders timely purchase of their SRECs?*

*Would quarterly surrender allow liable entities to align their SREC surrender processes with existing business requirements and pricing of electricity?*

Significant costs and man-hours are required to prepare the current annual submissions to ORER under the current REC. It would seem that similar effort could be required to underpin the retirement of SRECs. The CEC understands that the government is considering a system similar to that used by the Australian Tax Office using estimations based on the previous year's energy use, with a true-up at the end of the calendar year. If this is the case then the CEC believes that surrender of SRECs could occur quarterly or monthly.

The majority of small- scale systems (mostly Solar PV and Solar Hot Water) are currently sold with the REC price incorporated into the price as a Point of Sale discount. To enable this to continue under the new scheme, it will require the period between SREC creation and surrender to be as short as is practicable. The CEC therefore recommends that the period between the SREC creation and surrender is monthly.

## Other Issues

### **The treatment of existing forward contracts**

*Views are sought on the proposed approach for recognition of 'pre-existing contracts'.*

The CEC supports the proposed approach of allocating pre-existing forward contracts signed prior to 26 February 2010, to the LRET as this promotes investor confidence as it ensures that those participants who have invested in good faith under the previous rules will not be unfairly disadvantaged by the proposed changes.

This recognition should apply to forward contracts regardless of whether they are silent or explicit on the source RECs to be delivered.

Additionally, the CEC cautions against recognition of pre-existing contracts that distort the long-term objectives of the SRES and LRET reforms. Contracts that are open-ended in timing, or that contain options for extension well beyond the anticipated transition period of 2011 should not be able to remain in force. Such contracts will expose the large-scale target to the distortions of small-scale incentives that the RET Scheme reforms are intended to eliminate.

The legislation will require the Government to carefully draft the provisions to reflect the definitions of RECs that exist in pre-existing contracts.

## Other Issues

### **Assistance for emissions-intensive, trade-exposed (EITE) entities**

*The Government is interested in stakeholder views on the implications of the LRET and SRES on the partial exemption regulations for EITEs and the proposed approach.*

The CEC does not have any comments on this issue. However the CEC believes that it should take place in a transparent and timely fashion and recommend that the exemptions be worked out well in advance to avoid any delays in publishing the RPP.

## Any additional comments

### **REC Oversupply**

A number of industry participants are concerned that the number of banked RECs in the LRET at the start of the scheme on 1<sup>st</sup> January 2011 will be at a level that will continue to delay the development of large-scale renewable energy projects. The CEC recognises the need for a bank of LRECs at the start of the revised scheme to ensure the initial liquidity of the market. However demand for these new LRECs from 2011 needs to be at sufficient scale to ensure the enhanced RET legislation delivers its fundamental objective of meeting at least 20 per cent of stationary energy generation from prudent new investment in clean energy projects.