

Submission Template

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

Name of Organisation:	National Generators Forum
Name of Author:	(Dr) Harry Schaap
Phone Number:	03 9499 4249
Email:	Harry.Schaap@tpg.com.au
Website:	www.ngf.org.au
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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?

Liable entities, including a number of NGF members as liable entities, desire the flexibility to trade outside of the clearing house, consistent with Figure 2 – Optional Clearing House.

The optional clearing house arrangements would facilitate significantly greater business flexibility, backed by clearing house purchases if warranted. Such arrangements would enable liable entities to deal directly with SREC suppliers, including related internal business units. In turn, this would accommodate better business opportunities in the marketing and supply of eligible technologies and better contractual and financial hedging options to suit the structure and nature of individual businesses.

The optional clearing house proposal also allows for greater market innovation, cost reduction due to scale and arrangements with equipment suppliers and installers, effective product branding and enhanced competition.

A compulsory clearing house would significantly mute such incentives because the clearing house would be seen as dealing with just one undifferentiated commodity – SRECs – with much reduced incentives for market innovation, branding and competition by liable entities.

A compulsory clearing house will significantly reduce the ability of liable entities to manage their obligation and reduce their compliance costs.

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.

NGF members, as liable entities and as generation businesses, would prefer the annual Renewable Power Percentage (RPP) approach to establishing their obligations.

Option one, featuring an uncapped annual liability to ‘clear the pool’ of actual SRECs created in each year, is likely to create too much market uncertainty and hence increased risk for not just liable entities but also for all electricity markets participants. This is due to the unknown liability resulting from the uncapped SRES measure.

NGF members support the RPP approach as the best approach for creating greater market certainty and for providing better opportunities to deploy financial and physical market instruments more effectively, hence reducing overall compliance and energy costs. The NGF 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 RPPs for both LRET and SRES requirements. In the absence of such information, liable entities will struggle to appropriately establish cost recovery processes in contracts for supply that go beyond the current compliance year.

The discussion paper proposes that if there are insufficient SRECs created during a compliance year based on the current year RPP, liable parties could still pay \$40 into the clearing house and effectively ‘borrow’ SRECs which are yet to be created (page 12). Similarly, NGF contends in compliance years where SREC creation exceeds the demand determined by SRES Renewable Power Percentage, it should be the Government’s responsibility to enter the clearing house and purchase the surplus SRECs.

The Government could subsequently cost recover through ensuring the following year's RPP takes into account SRECs previously purchased by the Government.

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?

Liable entities already face significant administrative, regulatory and compliance burdens and a quarterly surrender process increases the burden even further. NGF members, as liable entities, support an annual acquittal process as illustrated in Figure 4 – example of key dates for Option 2, with a single surrender deadline of mid February each year and the annual setting of the RPPs by 31 March or earlier if possible.

SREC creators and SREC holders can readily arrange their business model and costing structure, including the time value of certificates, commensurate with an annual surrender cycle, particularly when combined with the flexibility of the voluntary clearing house option that can facilitate long-term SREC seller – buyer relationships.

Other Issues

The treatment of existing forward contracts

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

NGF members are constantly concerned with high levels of undesirable and unsettling regulatory risk. As such, NGF members welcome the proposal for the treatment of forward contracts as detailed in the Discussion Paper as it provides for a higher level of investment certainty than would be the case if existing forward contracts had to be rescinded or modified.

The proposal for what would now be SRECs to be used as RECs in LRET acquittal in existing forward contracts provides parties to such forward contracts with the option on how future SRECs can be used in a more flexible manner as either RECs or SRECs, depending on whether either party to such contracts applies, or does not apply, to the regulator to have an existing forward contract recognised for such forward contract consideration.

NGF members strongly support the intended start date of 1 January 2011 for the new arrangements with the cut-off date of 30 December 2010 for the banking of SRECs for use in LRET acquittal. However, NGF members note the continued uncertainty and potential business risk arising from the uncapped supply of solar credits RECs for the remainder of 2010.

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.

NGF members remain unconvinced about the special treatment for EITEs with respect to their RET obligations and thereby placing an even greater burden on other electricity consumers, and in particular, Australian manufacturing industry.

Recognising the inevitability of EITEs assistance, including existing regulation, NGF members accept the proposed determination for the amended 'base k' as the only practical way of determining the level of exemption, including the 'additional assistance percentage'.

Any additional comments

NGF members remain concerned about yet more future tinkering with the RET scheme, including yet more regulation, to account for a range of issues flagged in the Discussion Paper, including new waste coal mine gas, non-renewables-based heat pumps, self-generation exemption provisions and small-scale off-grid renewables. NGF members would oppose such further changes as they introduce yet more regulatory uncertainty into the RET measure.

The NGF wishes to reiterate key points made in the submission of 28 January 2010 in respect of Discussion Papers 5 and 4 dealing with the '*Treatment of 'solar credits' Renewable Energy Certificates under the RET*' and the '*Treatment of new waste coal mine gas power generation in the RET*' respectively:

- Since the inception of the MRET/RET, the NGF has continuously sought the Government's commitment to a market-based mechanism that provides sufficient transparency and simplicity of arrangements to allow market participants to make long term investments having certainty around regulatory arrangements.
- Multiple incentives for solar water heaters have created some seven million Renewable Energy Certificates (RECs) in 2009. Multiple incentives for small scale renewables, mostly domestic PV systems, with multiple solar credits, will create a very significant amount of additional RECs over the coming few years. It is the current 'flooding' of the REC market by certificates created from multiple incentive schemes, some with multiple credits for each MWh of electricity generated, that is causing the market uncertainty and leading to REC price volatility.

The continuation of multiple solar credits for small-scale renewables, together with their uncapped fixed-price nature and state-based feed-in tariffs, will continue to distort cost-effective renewable energy investment. This is potentially made worse by yet further reviews in 2012 and 2014 raising further expectations, creating further uncertainty and increasing investment risk.

- The inclusion of waste coal mine gas from existing and new mines to the RET, even though additional to the RET target, adds further REC market uncertainty as well as placing an even greater burden on retailers and consumers.
- The LRET and SRES have significant impact on the value of the National Electricity Market and the WA Market to the detriment of existing generators and the continued 'crowding out' of lower emission intensity gas-based generation. Governments need to show greater concern with respect to the impact on market-facing generators as the RET measures continue to undermine and impact on market-based investment.