

Regulation Impact Statement

Australian Government Response to recommendations from the
Climate Change Authority Review of the
Renewable Energy Target scheme

Proposition

To implement recommendations from the Climate Change Authority (CCA) Review of the Renewable Energy Target (RET) scheme where the recommendations improve the efficiency and effectiveness of the scheme in meeting the RET's policy objectives.

Policy context

Policy Background - Operation of the RET

The RET scheme is designed to deliver on the Australian Government's (the Government's) commitment to ensure the equivalent of at least 20 per cent of Australia's electricity comes from renewable sources by 2020.

The objects of the RET scheme (set out in the *Renewable Energy (Electricity) Act 2000 (REE Act)*) are to:

- (a) encourage the additional generation of electricity from renewable sources;
- (b) reduce emissions of greenhouse gases in the electricity sector; and
- (c) ensure that renewable energy sources are ecologically sustainable.

The RET creates a guaranteed market for additional renewable energy deployment using a mechanism of tradable certificates (each representing one megawatt-hour (MWh) of renewable energy). These certificates are created by renewable energy generators and owners of small-scale renewable energy systems. Demand for the certificates is created by placing a legal obligation on entities that buy wholesale electricity to source and surrender these certificates to demonstrate their compliance with annual obligations.

Liable entities pass the costs associated with sourcing these certificates on to electricity users through higher retail electricity prices.

In June 2010, the Parliament passed legislation to separate the RET into two parts, which commenced on 1 January 2011 the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES). The changes provide more certainty for investors in large-scale and small-scale renewable energy projects.

The Large Scale Renewable Energy Target (LRET) creates a financial incentive for the establishment of renewable energy power stations, such as wind and solar farms or hydro-electric power stations. It does this by legislating demand for Large-scale Generation Certificates (LGCs) through annual obligations placed on RET liable entities to surrender LGCs. These LGCs are created by RET-accredited power stations for eligible renewable electricity produced by the power stations.

The SRES assists households, small business and community groups with the upfront cost of installing small-scale renewable energy systems, such as solar photovoltaic (PV) systems. Owners of eligible systems are able, upon system installation, to create and sell Small-scale Technology Certificates (STCs) through deeming arrangements that estimate the amount of electricity the system will generate or displace over its lifetime. RET liable

entities have a legal requirement to buy STCs and surrender STCs on a quarterly basis to meet legislated obligations.

Post-Implementation Reviews (PIRs)

The Department of Climate Change and Energy Efficiency (the Department) will complete a PIR in 2013 on previous decisions regarding the RET. These include:

- Renewable Energy (Electricity) Amendment Regulations 2010 (No. 3) – extends safety and quality requirements for small-scale renewable energy generation systems;
- Renewable Energy (Electricity) Amendment Act 2009 and Renewable Energy (Electricity) (Charge) Amendment Act 2009 – expands the RET from 9,500 GWh to 45,000 GWh by 2020 as announced on 1 December 2007;
- Renewable Energy (Electricity) Amendment Regulations 2010 (No. 8) and Renewable Energy (Electricity) Amendment Regulations 2011 (No. 2) – brings forward the scheduled reductions in the solar credits multiplier; and
- regulatory amendments in 2012 to bring forward the phase-out of the solar credits mechanism to 1 January 2013.

Assessing the problem

The *REE Act* mandates a review of the RET every two years and broadly defines the scope of the review to include the operation of the *REE Act* and the *Renewable Energy (Electricity) Regulations 2001 (REE Regulations)*, and the diversity of renewable energy access to the scheme constituted by the *Act*.

The *Climate Change Authority Act 2012* requires the Climate Change Authority (CCA), an independent statutory body, to conduct the reviews having regard to a number of broad principles including: economic efficiency; environmental effectiveness; equity in the impacts of measures on households, businesses, workers and communities; and consistency with the development of an effective global response to climate change.

The CCA conducted the RET review with regard to the following objectives:

- increasing confidence and predictability;
- managing overall costs to electricity users and providers;
- providing flexibility and choice; and
- streamlining administrative and compliance costs.

The CCA consulted widely with interested parties when undertaking this Review. The CCA released an Issues Paper in August 2012 requesting feedback on particular questions. Almost 8,700 submissions were received including from two campaigns (Getup, over 7,700 submissions, and Hepburn Wind, 700 submissions). The CCA also sought feedback on its preliminary recommendations by releasing a Discussion Paper in October 2012 (which led to a further 54 submissions) and holding stakeholder consultation roundtables in November 2012.

The Department considers that this consultation was comprehensive. It covered all interested parties and major stakeholders and was effective in gathering views on all of the main issues within the scope of the Review.

As part of the Review, the CCA looked at the broad policy context in which the RET operates, which now includes the Carbon Pricing Mechanism (CPM). The CCA noted that even in the presence of a carbon price, the RET may be important if it mitigates the risk of uncertainty over the carbon price; if the carbon price is lower than optimal to achieve long-run mitigation goals; if it reduces mitigation costs through learning-by-doing; or if it creates other benefits, such as health benefits. The CCA concluded that 'in the current policy environment, the RET can be seen as being complementary to the carbon price, as a transitional measure, while a carbon price is being established, its future becomes more certain, and price levels adjust to reflect Australia's long-term emissions reduction goals'¹.

As the CCA considered that the RET has a continuing role to play in supporting investment in renewable generation in a changing policy environment, the Review focused on possible improvements to the RET, rather than its continued existence.

In addition to the CCA's RET Review, the complementarity of the RET with the Carbon Pricing Mechanism was recently assessed by the Government in the context of the Council of Australian Government's (COAG) agenda to rationalise carbon reduction and energy efficiency measures. This assessment drew in large part on the RET Review and stakeholders' submissions to it. The overall conclusion is that the RET is complementary to the carbon price, working as a transitional mechanism to assist in addressing the market failure of human induced climate change, by bringing forward the deployment of renewable energy in Australia to a level which is likely to be required to deliver abatement at least cost. In the absence of the RET, the development of the renewable energy industry and deployment of renewable energy would have been delayed, and could be delayed in the future, due to uncertainties arising from political debate about carbon pricing, further development of international carbon markets and international mitigation negotiations.

The carbon price also reduces the costs of the Renewable Energy Target, with higher carbon prices putting corresponding downward pressure on the Large-scale generation certificate prices and consequently the costs of the Renewable Energy Target. Accordingly, at a sufficient carbon price, modelling indicates that certificate prices, and thus the costs of the large-scale target, could reduce to zero.

The main benefit of earlier development and deployment is avoiding the 'lock-in' of high-emissions electricity generation. Since 2001, under the RET and its precursor the Mandatory Renewable Energy Target, Australia's renewable electricity capacity has almost doubled. Allowing local 'learning-by-doing' may also yield benefits, thereby reducing the costs of meeting long-term emissions reductions targets. The Complementarity Review found that costs of unwinding the RET would likely be greater than the benefits. In particular, it would undermine business and international confidence in the Government's commitment to mitigation. Finally, the RET scheme allows the Government to cost effectively achieve its renewable energy policy objectives along with its greenhouse gas mitigation policy objectives.

¹ Final Report: Renewable Energy Target Review, p36

Objective of Government action

The objective of Government action is to implement the recommendations of the Review where it agrees that these recommendations will improve the operation of the RET scheme and where the benefits of the change outweigh any additional costs.

In assessing these recommendations, the Department has considered the policy rationale for each recommendation and the supporting analysis provided by the Authority, along with any supplementary information available to the Government.

This RIS does not consider issues outside the scope of the Review's recommendations, including the broader question of whether the RET should be retained.

Options

Review Frequency (Rec 1)

Currently the *REE Act* requires statutory reviews of the RET every two years. A large number of submitters to the Review sought to have this timeframe extended, stating that two-yearly reviews cause significant uncertainty and affect investor confidence. The CCA also noted practical difficulties with a two-yearly review timeframe, as there would barely be time for the recommendations of a particular review to be implemented prior to the CCA beginning the next review.

Following the release of the CCA's discussion paper, some submitters expressed support for two-yearly reviews, generally to provide another opportunity to reassess the level of the target (Alinta Energy, GDF Suez and Energy Australia).

The CCA considered retaining the two-yearly reviews, but limiting the scope of every second review, however it considered that this option would still result in some uncertainty for investors. The CCA concluded that full reviews every four years would provide an appropriate balance between flexibility in the scheme and policy stability for investments.

The Department considers that the CCA consulted widely on this issue, and the recommendation reflects the majority of stakeholder views and addresses practical difficulties associated with a two year review cycle. The recommendation minimises the impacts on investors and liable entities participating in the RET scheme by limiting the uncertainty created by statutory reviews. The Department therefore proposes that the Government accept this recommendation.

Fixed vs. floating target (Rec 2)

Currently the LRET target comprises annual targets, fixed in GWh which rise to 41,000 GWh for the period 2020 to 2030. The 41,000 GWh target is based on an estimate of 20 per cent of electricity demand in 2020 made at the time the scheme was expanded (2007). It is fixed in GWh in order to provide certainty for

investment. There has always been the potential for a divergence between the stated 20 per cent target and the renewable generation actually delivered in 2020 as a percentage of total generation as a result of the legislated target.

The CCA considered whether the target should remain fixed in GWh or changed to a floating target (i.e. constantly adjusted to align with 20 per cent of current electricity demand projections for 2020). Some stakeholders (such as Rio Tinto and Energy Australia) consider the policy intention of the RET is to deliver 20 per cent of electricity demand in 2020. Other stakeholders (Meridian Energy Australia, Alstom, Vestas) state that a fixed GWh target is necessary to provide a stable basis for investment decisions.

The CCA recommended retaining a fixed target on the basis that estimates of electricity demand projections are inherently uncertain and if a floating target was adopted there would need to be constant readjustment. This would create a significant risk for investors.

The Department considers that the CCA has provided a balanced and comprehensive analysis of this issue and recommends that the Government support the recommendation.

The level and form of the Large-scale Renewable Energy Target (Rec 3)

The CCA considered several options for the level of the LRET target: maintaining the existing target; reducing the target; and increasing the target.

1. Maintaining the existing target

Stakeholders expressed mixed views on whether the current legislated 2020 target can be met. Some submitters to the Review (EnergyAustralia, Macquarie Generation, Origin Energy and the Energy Supply Association of Australia) expressed the view that the renewable generation required to meet the target cannot be built in time due to difficulties in obtaining planning approvals and negotiating connection agreements.

However a number of stakeholders suggested the target could be met (RATCH-Australia Corporation, Wind Prospects, AGL Energy and the Clean Energy Council). These submitters noted that there is already a significant pipeline of planned investments, enough to meet the target if these projects go ahead. The renewable energy industry is concerned about planning approvals, but consider that even with more stringent guidelines, enough projects could go ahead to meet the target. However, these stakeholders also stated that any change to the target, either upwards or downwards, would cause uncertainty in the market and decrease the likelihood of any target being met.

Electricity market modelling by SKM MMA commissioned by the CCA found that the existing target can be met provided there is a carbon price.

2. Reducing the target

In June 2012, the Australian Energy Market Operator published long-term electricity demand forecasts that were lower than the projections used in 2007 as the basis for setting the legislated targets. This means the RET could deliver more than 20 per cent of generation from renewables in 2020. Incumbent generators and large energy users argued for a one-off reduction in the target to align with updated forecasts of electricity demand in order to reduce the costs of the scheme.

Modelling conducted for the review found that reducing the target to an "Updated 20%" would increase the average household bill by \$0.40 per year over the period 2012-13 to 2030-31. This is because a greater supply of renewable generation puts downward pressure on wholesale electricity prices due to its lower marginal cost. Reducing the amount of renewable energy generated increases the wholesale price, which will offset the fall in the retail price of electricity from lowering the target.

In addition, reducing the target would increase policy uncertainty for both renewable energy investors and liable entities and increase the risk premiums required by lenders for renewable energy investments.

3. Increasing the target

The CCA considered increasing the target in order to further reduce greenhouse gas emissions, promote energy diversity, health and environmental benefits and ensure that projects funded by the Clean Energy Finance Corporation (CEFC) are additional to the RET.

Projects supported by the CEFC will be eligible to earn LGCs and will therefore contribute to meeting the 41,000 GWh LRET target. A number of submitters argued that the target should be increased to ensure that the renewable generation achieved through CEFC supported projects is in addition to the current LRET target. Modelling undertaken by the World Wildlife Fund (WWF) and the Australian Solar Council found that if CEFC investments are not additional to the RET, Australia could potentially miss out on 7,800 GWh of renewable generation.

Some stakeholders were also concerned that the CEFC would cause instability in the RET market as CEFC financed projects could potentially crowd out privately funded renewable energy projects.

However, the CEFC has not yet commenced operations and the investment mandate has not yet been finalised, so there is considerable uncertainty over the level and type of projects that the CEFC will actually fund and the impact that this activity will have on the renewable energy industry. Some submitters, including the Clean Energy Council, thought the LRET should not be increased while this level of uncertainty exists.

4. Conclusion

The Department considers that the CCA has looked at the best available information in forming its view on the level and form of the LRET target and the report provides a comprehensive and balanced analysis of the issues. The recommendation to maintain the existing target has the least adverse impact on businesses as it provides policy stability for investment without increasing the cost impact of the RET on energy users.

The Department therefore agrees with the recommendation of the CCA to retain the existing LRET target of 41,000 GWh in its current form.

Adjusting post-2020 targets (Rec 4)

The CCA noted that it is unnecessary to increase the target for the RET beyond 2020 in the context of a sufficient carbon price, which would provide an incentive for investment in renewable energy projects beyond 2020. It is also difficult to determine the impact of CEFC investments on the RET before the investment mandate is set, as this will also influence the level of investment beyond 2020. As such, 2016 will be an appropriate time to analyse the impacts of these policies.

The Department agrees with this analysis and proposes the Government accept this recommendation.

Recombining the small and large-scale schemes (Rec 5)

The RET was split into two schemes, the LRET and the SRES, on 1 January 2011 to address concerns that stronger than expected demand for solar panels (fuelled by declining system costs, as well as incentives such as Solar Credits and state and territory feed-in tariffs) was creating uncertainty for investors in large-scale renewable energy projects.

The SRES operates as an uncapped scheme, guaranteeing that all small-scale installations will be able to create certificates. Some submitters to the Review considered the SRES was adding high and unpredictable costs to electricity bills and thought that merging the schemes could lower the cost, as the SRES would then be part of a capped scheme and there would be less renewable energy generation.

Modelling conducted for the Review found that combining the LRET and the SRES would actually increase the price of wholesale electricity by \$1.70 per MWh over the period 2012-13 to 2030-31. This is because a greater level of renewable generation lowers the cost of wholesale electricity. Recombining the schemes would increase the retail electricity price for businesses and households as the decreased cost of certificates is offset by a rise in the wholesale electricity price.

The CCA also concluded that merging the schemes would increase uncertainty for both renewable energy investors and liable entities, as there is still a risk of distorting the large-scale market.

The Department considers that the CCA has thoroughly analysed this issue and proposes that the Government agree to retain the LRET and the SRES as separate schemes.

Adjusting the solar photovoltaic (PV) threshold (Rec 6)

The CCA consider there is the potential for significant growth in the installation of medium-scale solar PV systems between 10 to 100 kW. If this occurs it could generate a relatively high number of certificates and increase the costs of the SRES. To mitigate this risk, the CCA recommended that the threshold for including solar PV systems in the SRES be lower than the current threshold of 100kW, so that these medium-scale systems are included in the capped LRET scheme. In addition the CCA recommended that the deeming period for systems moved to the LRET should be reduced from 15 years to 5 years.

However, the CCA did not provide compelling evidence of imminent growth in investment in these systems. The report only provided a comparison with other countries with relatively higher proportions of medium-scale PV systems, which could reflect the different circumstances and policy settings in these countries.

The Department considers that moving medium-scale systems into the LRET with 5 year deeming risks destabilising the LRET market. While the CCA's proposal could constrain the costs of a potential boom, it would reduce certainty over the level of investment in large-scale projects needed to meet the target. It may also distort the market away from the least cost solutions. In addition, prematurely reducing the level of support for medium-scale systems could damage the development of an emerging industry.

The Department proposes that systems below 100 kW should not be moved to the LRET. The situation should be monitored and evaluated through stakeholder consultation and if a compelling case for action emerges the Government should look at options for addressing the issue within the SRES (such as changing the deeming arrangements for these systems). This would allow the costs of the SRES to be contained without damaging the medium-scale PV industry or causing uncertainty in the LRET market.

Ministerial power to lower the price cap should be retained (Rec 7)

The SRES has a price cap on certificates of \$40 (the fixed clearing house price). The *REE Act* allows the Minister to lower the price cap, taking into account several factors such as the cost of units and out-of-pocket expenses. If the Minister exercised the power to reduce the fixed price, it would reduce the incentive for the uptake of small-scale renewable energy systems and may lower the overall cost of the SRES faced by liable entities. The CCA considered that this power could be used as an emergency cost containment measure should installations of small-scale systems reach unexpectedly high levels.

As noted in Recommendation 8 below, lowering the price cap is not the preferred option for controlling the costs of the SRES as it could affect the value of current investments. However the Department agrees that it is sensible to retain this power as an emergency mechanism.

Phasing out the SRES through reduced deeming (Rec 8)

Although the CCA recommended retaining the SRES as a separate scheme, it recognised that its uncapped nature means that there is no mechanism for the price of certificates to adjust according to falling technology costs or higher electricity prices. The CCA looked at various mechanisms for constraining the costs in the future, including:

- Fractional multiplier. This is a discounting mechanism that could be applied at the Minister's discretion, triggered by a set of conditions relating to electricity price rises, system costs and payback periods. However, several industry stakeholders expressed concern that due to the complexity of the calculations this would be difficult to implement and create uncertainty for the industry.
- Lowering the price cap. As discussed above, the *REE Act* allows the Minister to lower the price cap taking into account certain factors including the cost of units and out-of-pocket expenses. Although the CCA recommended that

the Minister retain this power, it is not the preferred mechanism for controlling costs of the SRES, as it could affect current investments that have been made on the assumption of a \$40 cap and transitional arrangements may be required for certificates on the Clearing House transfer list.

- **Reduced deeming.** Under this option the SRES would be phased out by reducing the deeming period (currently set at 15 years) by 1 year each year from 2017 onwards. This would help limit the potential for a spike in installations and scheme cost without actively limiting the number of installations. Phasing also provides certainty to SRES participants and a predictable path to the end of the scheme.

The CCA concluded that the best option for constraining future costs of the SRES is to incrementally reduce the deeming period. This has the least impact on businesses as it provides a predictable path to the end of the scheme, allowing time for industry to plan and prepare.

The Department considers that the CCA has thoroughly analysed the options for containing the costs of the SRES and agrees that the best option is through reduced deeming. This option would help to manage the costs by ensuring generation beyond the LRET's termination date of 2030 is not supported and also signals the expectation that less support will be needed in the future as technology costs decline and electricity prices rise.

Amending the Clearing House to a deficit sales facility (Rec 9)

Currently creators of Small-scale Technology Certificates (STCs) may sell these certificates on the market (for the market price) or through the STC Clearing House at a fixed price of \$40. If there are more sellers than buyers, the STCs join the STC Clearing House transfer list, which works on a first-in-first-served basis.

The primary purpose of the Clearing House is to effectively deal with shortages of STCs, ensuring supply for liable entities to meet quarterly surrender requirements at a capped price. However sellers have perceived this to mean they are entitled to a \$40 price for their certificates and in a reasonable timeframe.

As the spot price for STCs has generally been below \$40, certificates have rarely been sold through the Clearing House and there are several million STCs on the transfer list. If the \$40 STC price cap was lowered, transitional arrangements may need to be provided to holders of these certificates.

The CCA proposed that the Clearing House become a deficit sales facility, whereby new certificates can only be placed on the transfer list if the Clearing House is in deficit. This means the \$40 cap will remain, but it is clear to sellers that the \$40 price is not guaranteed.

However, this recommendation does not address the problem of the large number of certificates currently in the transfer list, it only prevents this from happening again in the future. The large transfer list is substantially a result of underestimation of the Small-scale Technology Percentage (STP), which is based on a forecast of the number of certificates that will be created each year. As the legal obligation to surrender certificates is based on the STP, this has led to an over-supply in the market in recent years. However, it is expected that the STP will become more accurate following the phase-out of the solar credits multiplier and the reduction in State and Territory feed-in-tariffs. This will tend to result in

a reduction of certificates in the Clearing House over time as the demand balance tightens.

The Department considers that the Government should reject this recommendation. The proposal will be complex to implement and the problem should be adequately addressed through improving estimates of certificate creation and communicating the role of the Clearing House.

Removing the requirements to submit a solar hot water heater and small generation unit return and out-of-pocket expense data (Rec 10 & 11)

The CCA has identified several data collection requirements that are adding an unnecessary administrative burden to RET participants – these are the requirements to submit solar hot water heater and solar generation unit returns, and to provide out-of-pocket expense data for a small generation unit installation.

With regards to the requirement to submit a solar hot water heater and small generation unit return, most of the information provided in these returns is already available through the REC registry.

The collection of out-of-pocket expense data assists policy-makers in identifying trends in system prices compared to the financial incentive provided by the RET. However, it imposes a significant administrative burden on scheme participants and may be inaccurate because of the complexity of its calculation. The CCA's view was that the information would be more effectively and efficiently collected through appropriate surveys.

The Department agrees with the reasoning and rationale behind these recommendations and proposes that the Government remove these requirements from the *REE Act* and supporting Regulations. This will reduce the administrative costs incurred by businesses participating in the RET scheme.

Point of liability and process for calculating liability (Rec 12 & 14)

The CCA considered that the liability framework (determining which entities are liable) and the process for calculating individual liability were functioning effectively and should remain in place.

The Department agrees with the CCA's analysis and also believes that these aspects of the scheme are working effectively.

Opt-in for large energy users (Rec 13)

The CCA considered that large energy users should be able to opt into the RET scheme and manage the RET liability for the electricity they consume. This could lower overall costs of the scheme, as energy users would have a greater incentive to minimise costs.

An opt-in arrangement would lead to increased administrative and compliance costs for the Clean Energy Regulator (the Regulator), and could increase uncertainty for electricity retailers over their liabilities. There are also complexities associated with setting an appropriate threshold and measuring the liability for the opt-in entity, and removing this from the electricity supplier.

A number of large energy users expressed support for this proposal in submissions to the RET Review. Electricity retailers did not object, but stated that the design needs to be efficient for all parties involved, primarily by ensuring the opt-in entity provides a reasonable notice period to the electricity retailer.

Provided an opt-in arrangement is appropriately designed, it should not increase the overall costs of the scheme, and should be of net benefit to those businesses choosing to take up this option (as they will only opt-in if they consider there are benefits to doing so). However, as noted above, this recommendation will involve some administrative cost to Government.

The Department recommends that the Government conduct further consultation and analysis on the design of a possible opt-in scheme, and only implement this recommendation if the benefits are found to outweigh the costs.

Setting the Small-scale Technology Percentage (STP) and Renewable power Percentage (RPP) (Rec 15)

The RPP and STP effectively determine the number of certificates that liable entities are required to surrender each year in order to comply with LRET and SRES obligations respectively. The Regulator is currently required to publish these figures by 31 March of the compliance year (which is a calendar year). A number of submissions to the Review proposed bringing forward the date that the RPP and STP are published to provide greater certainty for participants over their liability and enable them to manage the purchase of certificates in a more effective way, thereby potentially reducing compliance costs of the scheme. The CCA recommended changing the timing of the publication of the RPP and STP to December of the previous year.

The Department agrees that this recommendation reflects the view of stakeholders and notes the Regulator considers that the publication of these numbers can be brought forward without material loss of accuracy.

Surrender of certificates (Rec 16)

The surrender of certificates to the Regulator occurs annually under the LRET and quarterly under the SRES. Many stakeholders submitted to the Review in support of the current arrangements, however a few advocated for more frequent surrender under the LRET, or less frequent surrender under the SRES.

The CCA concluded that on balance, the current arrangements should be maintained. The Department agrees that this recommendation is in line with the view of the majority of stakeholders and that there is no justification for changing the current arrangements.

Refunding over-surrendered certificates (Rec 17)

Currently if a liable entity surrenders an excess of certificates these certificates are held by the Regulator to use against that entity's liability in the future. This creates a problem if a liable entity ceases to trade. The Review recommended that in this circumstance, the Regulator should be able to refund the over-surrendered certificates or transfer them if a liable entity is acquired by another liable entity.

The Department agrees with the rationale that over-surrendered certificates should be refunded or transferred in the event that a liable entity ceases to trade. This mechanism will be designed to minimise market impacts that may occur from releasing a large number of certificates at one time.

Shortfall charges (Rec 18)

The SRES and LRET contain a penalty charge of \$65 per MWh for failure to surrender certificates. However, as the cost of purchasing certificates is tax deductible and the shortfall is not, the certificate price would have to rise to around \$93 before liable entities are better off paying the shortfall charge. If LGC prices reach this level, liable entities may choose to pay the shortfall charge rather than purchase certificates and the shortfall charge may need to be increased in order for the LRET target to be met.

Modelling commissioned for the Review indicated that the LRET should be reached without adjusting the shortfall charge (i.e. certificate prices should remain lower than the shortfall charge). However in the case of a low carbon price there is possibility that it may need to be increased.

The Department agrees with the rationale for not changing the shortfall charge at this time. This issue could be revisited in the 2016 Review if necessary.

Reviewing the emissions-intensive trade-exposed (EITE) exemption (Rec 19 & 20)

The partial exemption framework for EITE entities under the RET has the same rationale as the Jobs and Competitiveness Program (JCP) under the CPM; to provide some assistance for the costs of the carbon price and the RET to emissions-intensive entities competing in an international setting where competitors do not face similar costs. EITE entities are generally not able to pass the additional costs of the RET on to their customers, and without assistance there is a risk that these businesses could move offshore.

The CCA recommended that the review of the Partial Exemption framework under the RET should be combined with the review of the JCP by the Productivity Commission. Additionally, the CCA recommended that the Government should consider the impact of the RET on the competitiveness of an EITE entity when considering whether to refer a request for a review of the level of industry assistance under the CPM and the RET to the Productivity Commission (PC).

The Department agrees with the rationale for combining the two reviews, and proposes that the Government include the level of exemption for EITE entities under the RET in the terms of reference for the PC review.

Tradable Partial Exemption Certificates (PECs) (Rec 21)

PECs provide emissions-intensive, trade-exposed businesses with some exemption from the costs of the RET. The PEC nominates a liable entity (the electricity retailer) against which the exemption can be recognised, and as such its value is generally negotiated as part of the electricity contract between the EITE business and the retailer. There is a risk that the liable entity may not pass on the full value of the exemption, or may not work to minimise the liable entity's cost of RET compliance.

The CCA recommend that PECs should be tradeable where the costs of the RET are passed through to electricity users. This would allow an EITE business to nominate any liable entity to use the PEC and negotiate the value of the PEC separately to the electricity contract. This is a change that was supported by many EITE entities in submissions to the Review.

The Department considers that there may be benefits for allowing PECs to be transferable where the costs of the RET have been passed through, however this is administratively complex. If appropriately implemented, this should provide EITE entities with greater flexibility without increasing costs.

The Department proposes that the Government consult further on the details of this arrangement with EITE businesses and liable entities, with a view to implementing this recommendation if the benefits are found to outweigh the costs.

Aligning EITE application processes (Rec 22)

The CCA recommended that the Government consider opportunities for efficiencies through the alignment of the application process and data requirements for EITE industries under the JCP and RET, in order to reduce the administrative burden on businesses.

The Department agrees with this recommendation and is already responding to industry concerns relating to the streamlining of application processes for EITE entities. The Government is putting in place amendments to regulations to change RET audit requirements so they better align with JCP audit requirements under the *Clean Energy Regulations 2011*. The Department and the Regulator will continue to liaise on further opportunities to streamline the PEC and JCP application processes.

Self-generator exemption (Rec 23 & 24)

Entities that generate electricity for their own use have been exempt from the RET since its commencement in 2001 (provided certain criteria are met). The Review found that removing the exemption would entail significant administrative costs. It would automatically impose a RET liability on new small-scale installations unless the *REE Act* stated otherwise, so a threshold would need to be included on the size of units no longer exempt. The development of this threshold would require significant analysis and a degree of arbitrariness, as well as increased costs. There are also environmental benefits to retaining the exemption as stakeholders have advised that many cogeneration projects would not go ahead without it.

The CCA however did suggest a minor change to the exemption to allow for self-generators in remote locations to provide a small amount of electricity for community benefits or services. In some remote resource projects, it may be efficient for the self-generator to supply a small amount of electricity, rather than the organisation developing its own generation sources. Currently this would disqualify the generator from the self-generators exemption.

The Department agrees with the rationale for retaining the self-generators exemption. The Department also agrees in principle that arrangements should be made to allow for incidental off-take in remote locations without disqualifying projects from the exemption. However, the Department considers that further

consultation and analysis is necessary to determine the parameters of such an arrangement.

Eligibility of technologies & accreditation in the LRET (Rec 25-28)

The CCA considered whether the current “list” of renewable energy sources eligible to participate in the LRET was adequate. Specifically, the CCA considered the eligibility of two energy sources; waste coal mine gas (WCMG) and biomass from native forests.

WCMG is not a renewable energy source, but has been included in the RET since 2009 to provide transitional assistance for existing WCMG projects that would be affected by cessation of the NSW Greenhouse Gas Reduction Scheme (GGAS) on commencement of the CPM.

The CCA concluded that removal of these projects from the RET would mean that the Government would have to consider alternative transitional arrangements for these projects. The CCA considered that such an alternative would not necessarily cost less.

The CCA also recommended that new WCMG projects should not be eligible. The WCMG projects that have been included in the LRET are additional to the 41,000 GWh target in order to preserve the environmental integrity of the scheme. If new projects were included this would increase costs as the generation would also have to be additional. This would also set a precedent for inclusion of other non-renewable energy waste gas sources.

The Department agrees with the rationale for retaining the existing arrangements for WCMG projects, and for not including any new projects in the LRET.

Wood waste from native forests was removed from the list of eligible renewable energy sources under the LRET in 2011. This was to ensure that the RET did not provide an additional incentive for the burning of native forest wood waste for bio-energy, which could lead to unintended outcomes for biodiversity and the destruction of intact carbon stores. The CCA recommended that the Government should explore whether the RET eligibility for wood-waste is likely to increase the rate of logging of native forests. If it is not, the CCA recommended that eligibility should be reinstated subject to appropriate accreditation processes designed to ensure that no additional logging occurs as a result.

The Department does not consider that circumstances have changed sufficiently since this issue was considered in 2011 to warrant a further review at this time.

Maintaining the Clean Energy Council (CEC) as the sole accreditation body for the SRES (Rec 29)

Currently under the SRES, the Clean Energy Council (CEC) is the only organisation that can accredit small generation unit designers and installers for the purpose of creating STCs. Some stakeholders in the solar industry (e.g. Australian Solar Council) submitted to the CCA that accreditation should be opened up to certified bodies beyond the CEC.

The CCA considered that the benefits of opening up accreditation process do not outweigh the additional administrative costs and the potential risk that competition could drive lower standards of accreditation. Therefore, the CCA recommended retaining the existing arrangements for the accreditation of small-

scale systems, rather than opening up accreditation to bodies other than the CEC.

The Department is also concerned about the risks of opening up accreditation to bodies other than the CEC and also notes that currently no other bodies have expressed interest in taking on this role. However, there are benefits to greater competition in this area and the Department recommends that the Government keep this issue under consideration and consider alternative proposals that come forward, taking into account the issues that were identified by the Review.

New small-scale technologies to be included on a case-by-case basis (Rec 30 & 31)

The Regulatory Impact Statement for the Bill to split the RET into two schemes identifies the RET Review as the mechanism for including new technologies. There is also a provision under the Act that allows the Minister to include new technologies in the SRES by regulation.

The CCA therefore considered what framework should be used to determine whether new technologies should be included in the SRES, and whether there are any technologies that should currently be included.

The CCA proposed that the Government develop a framework based on the following considerations:

- Is the proposed technology currently not eligible?
- Does the proposed technology generate renewable energy?
- Is the proposed technology a small-scale technology?
- Is the proposed technology commercially ready?

The Department agrees that it is reasonable for the *REE* Regulations to provide a framework to guide decisions on including new technologies, and the CCA's principles provide a useful starting point. In addition, if the Review frequency is changed to four-yearly it would be necessary to ensure there is a robust mechanism for considering new technologies between reviews. The Department also agrees that there is no compelling evidence that any currently proposed new small-scale technologies meet these criteria.

Displacement technologies (Rec 32 & 33)

The RET scheme is primarily focused on renewables based electricity. Displacement technologies are technologies such as solar hot water heaters that displace electricity consumed from the grid. Solar hot water heaters and heat pumps are the only displacement technologies currently eligible to create certificates under the RET. Some submissions proposed that new displacement technologies be included, while others called for displacement technologies to be removed on the basis that they are not electricity generation technologies and are increasing the cost of the scheme.

The CCA report noted that the SRES is an uncapped scheme and including new displacement technologies will increase costs for energy users. In addition, there are overlaps with State and territory energy efficiency (white certificate) schemes that provide some support for these technologies.

The CCA recommended that existing displacement technologies remain in the SRES, but should be phased out if a national energy efficiency scheme is established. The CCA's arguments for retaining these technologies are that it supports the phase-out of electric hot water heaters, and encourages the take-up of these technologies in gas exclusive areas. The CCA does not recommend including new displacement technologies as this would increase the cost of the RET without adding any additional renewable generation. The Department considers that the CCA has thoroughly analysed these issues and proposes that the Government accept these recommendations.

Diversity of RET technologies (Rec 34)

The RET is a market based scheme that provides an incentive for the most cost-effective renewable energy technologies, ensuring the target is met at lowest cost. The CCA recommended that the RET should not be changed to promote diversity, as this would add to the costs of the scheme.

The Department agrees with the CCA's analysis on this issue, and considers that other measures, such as the Australian Renewable Energy Agency and the Clean Energy Finance Corporation are better placed to assist with speeding up the adoption of a more diverse range of renewable energy technologies.

Implementation and review

Recommendations to Maintain Status Quo

Recommendations 2, 3, 4, 5, 7, 12, 14, 16, 18, 23, 25, 26, 27, 29, 30, 31, 32, 33 and 34 will have no implementation issues as no changes need to be made.

Recommendations to be implemented

Recommendations 8, 11, 19, 20, 22 and 30 can be implemented in 2013 through regulations or changes to guidelines and do not require any further consultation.

Recommendations 1, 10, 15 and 17 require legislative change but the Department considers they could be implemented without any further consultation.

Recommendation 15 (setting the renewable power percentage and the small-scale technology percentage) could be implemented voluntarily by the Regulator if necessary prior to legislative amendment being made.

Recommendations requiring further consultation

The Department considers that the following recommendations require further analysis and consultation with affected parties and should be implemented if the benefits are found to outweigh the costs. This consultation could commence in the first half of 2013.

- Developing an opt-in provision for large energy users.
- Developing an arrangement for PECs to be transferable from an EITE to any liable entity.
- Allowing for incidental off-take of electricity in the self-generators provision.

The next statutory review of the RET will provide an opportunity for reviewing these changes.