



**Australian Government**  
**Department of the Environment**

Mr Jason McNamara  
Executive Director  
Office of Best Practice Regulation  
Department of the Prime Minister and Cabinet

Dear Mr McNamara

I am writing in relation to the Renewable Energy Target Scheme - Report of the Expert Panel (the Report). I am satisfied that the review has undertaken a process and analysis equivalent to a Regulation Impact Statement (RIS) as set out in the *Australian Government Guide to Regulation* (March 2014). I certify that the Report (copy enclosed) has adequately addressed all seven RIS questions, and is suitable for the purposes of the Government's consideration of its initial response to the Report.

**The review process**

The review of the Renewable Energy Target (RET) scheme was jointly announced by the Hon Ian Macfarlane MP, the Minister for Industry, and the Hon Greg Hunt MP, the Minister for the Environment, on 17 February 2014.

The Terms of Reference required an examination of the operation, costs and benefits of the RET scheme including the economic, environmental and social impacts, the extent to which the objectives of the scheme are being met and the interaction of the RET with other Australian Government and state and territory government policies and the Commonwealth Government's commitment to reduce business costs and to cut red and green tape. The full Terms of Reference are reproduced in the Report.

An Expert Panel (the Panel) was appointed to undertake the review comprising: Mr Dick Warburton AO LVO (chair), Dr Brian Fisher AO PSM, Ms Shirley In't Veld and Mr Matt Zema. The Panel was supported by a Secretariat in the Department of the Prime Minister and Cabinet and undertook public consultations.

**Addressing the RIS questions**

*What is the policy problem you are trying to solve?*

The Review examined whether the Commonwealth's RET scheme remains appropriate. The Expert Panel found that the RET scheme has been successful in supporting additional generation of electricity from renewable sources and has contributed to some reduction in greenhouse emissions in the electricity sector. However, the Expert Panel concluded that reform of the scheme is required in light of the unforeseen changed circumstances in Australia's main electricity markets and the availability of lower cost emissions abatement alternatives. In particular, the Expert Panel found that under current settings the RET would support significant additional investment in renewable generation capacity at a time when additional capacity (of any kind) is not required to meet electricity demand across Australia's main electricity networks for several years. The Expert Panel also noted the cross-subsidies that the scheme imposes and its adverse effect on the allocation of resources in the economy.

*Why is government action needed?*

The RET scheme is implemented through Commonwealth legislation and regulations. Australian Government action is required to amend these provisions if the scheme is to be reformed.

*What policy options are you considering?*

The Government is considering a range of options examined in the Review for reforming both the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES) components of the RET scheme.

In relation to the LRET, the options considered in the Review were:

- continuing with the LRET unchanged;
- repealing the LRET;
- closing the LRET to new entrants;
- reducing the LRET so as to achieve a 'real 20 per cent' share for renewables in Australia's electricity mix in 2020;
- extending the LRET so as to achieve a 'real 30 per cent' share for renewables in Australia's electricity mix in 2030; and
- setting the LRET annually based on a 50 per cent share of new growth in electricity demand.

In relation to the SRES, the options considered in the Review were:

- continuing with the SRES unchanged;
- repealing the SRES;
- accelerating the phase-out of the SRES;
- recombining the SRES and LRET schemes; and
- reducing the 100 kilowatt system size threshold for the eligibility of solar PV systems under the scheme.

The Panel also examined a range of other matters relating to the operation of the RET scheme including exemptions, the treatment of native forest wood waste, the interaction of the scheme with other Commonwealth, state and territory policies and opportunities for improving and streamlining the scheme.

*What is the likely net benefit of each option?*

A consultant (ACIL Allen) was engaged to undertake detailed electricity market modelling to inform the Expert Panel's deliberations. This modelling presents the effects of different options on various stakeholders (consumers, incumbent generators and renewable generators) and includes the sector resource costs, profitability, wholesale and retail prices, emissions outcomes and abatement costs.

This analysis is referenced in the Panel's report and set out in detail in the consultant's report: RET Review Modelling - Market Modelling of Various RET Policy Options. As reflected in the Report, the Expert Panel also considered modelling results submitted by stakeholders and undertook qualitative analysis of factors not addressed in the ACIL Allen modelling, such as economy-wide impacts of the RET.

*Who will you consult and how will you consult them?*

The Expert Panel undertook extensive consultation for its Review.

A paper calling for public submissions was released on 5 April 2014 and in response the Panel received around 1,000 unique submissions with a wide variety of views on the future of the RET. The Panel also received over 23,000 campaign letters and emails.

The Panel conducted around 100 face to face meetings with more than 200 stakeholders representing the renewables industry, electricity retailers and generators, electricity consumers, environmental and welfare groups and state and territory governments.

As noted above, the Review was also informed by the detailed electricity market modelling undertaken by ACIL Allen for the Panel that assessed the impacts of the current RET policy and alternative options. A consultation paper on the proposed approach to key modelling assumptions was released by the Panel as part of its Call for Submissions on 5 April 2014. The modelling assumptions were discussed at a stakeholder workshop on 23 April 2014. Preliminary modelling results were presented at a second stakeholder workshop held on 23 June 2014 that was attended by 78 participants.

The Government received the Report on 15 August 2014. The Government subsequently released the Report on 28 August 2014. The Government will consult further on detailed implementation arrangements once it has settled on any reforms to be implemented.

*What is the best option from those you have considered?*

The Report provides detailed reasons as to why support for renewable energy under the RET scheme should be reduced. The Expert Panel recommended that the Government choose from two preferred options in respect of each of the LRET and SRES.

In the case of the LRET, the Expert Panel recommended either:

- closing the scheme to new entrants, which would provide investors in existing renewable generation with continued access to support under the scheme while guarding against the substantial costs of subsidising more surplus generation capacity; or
- modifying the LRET to increase in proportion with growth in electricity demand which would protect investors in existing renewable generators and would support additional renewable generation when demand is growing.

In the case of the SRES, the Expert Panel recommended either:

- repealing the scheme; or
- accelerate the phase-out of the scheme, which would avoid potentially significant consequences for the industry in terms of job losses and the stranding of investments in the industry supply chain.

Further details on the relative merits of these options are provided in the Report.

*How will you implement and evaluate your chosen option?*

The Minister for the Environment is responsible for the RET scheme legislation and regulations. Once options for reform have been chosen, the Department of the Environment will assist the Minister and the Government give effect to the reforms through preparation of the relevant legislative and

regulatory amendments. The Clean Energy Regulator, as the administrator of the scheme, would then be responsible for administering the new arrangements. Monitoring and evaluation of the impact of the reforms would be undertaken as part of the Department's ongoing and regular responsibilities for providing advice to the Minister and the Government on the RET scheme.

### Estimation of the regulatory burden

The regulatory burden to business, community organisations or individuals has been quantified using the Australian Government's Regulatory Burden Measurement framework. As the net impact is deregulatory, no offsets have been required. The details have been agreed with your office and are provided below.

Change in costs (\$million)	Business	Community Organisations	Individuals	Total change in cost
Total, by sector	(\$995.24)	\$0	(\$0.45)	(\$995.69)
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$0	\$0	\$0	\$0
Are all new costs offset? <input type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input checked="" type="checkbox"/> Deregulatory-no offsets required				
Total (Change in costs - Cost offset) (\$million) = (\$995.69 million)				

Should you have any queries in relation to this matter please contact John Jende on 02 6271 6261.

Yours sincerely

David Parker  
Deputy Secretary  
Climate Change and Water Group