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Submissions
Climate Change Authority
Melbourne VIC 3001

Submitted by Email: submissions@climatechangeauthority.gov.au

Submission on the Issues paper: Renewable Energy Target (RET) Review

The Climate Markets and Investment Association (CMIA) welcome the opportunity to provide feedback on the proposed Renewable Energy Target (RET) Review.

About the Climate Market Investment Association

CMIA is an international trade association representing firms that finance, invest in, and provide enabling support to activities that reduce emissions across five continents. CMIA's international membership accounts for an estimated 75 per cent of the global carbon market, valued at approximately USD 120 billion in 2010.

The CMIA is active in Australia and is keen to work with Government to identify ways to ensure the effective and most efficient operation of the RET in both the short and longer term.

As a leading association that represents investors who actively invest in renewable energy projects, CMIA has the following suggestions:

General Comments

CMIA is supportive of Australia's renewable energy market and is of the view that a market based scheme is important to ensure that the lowest cost abatement of new generation is developed in Australia to meet the RET. Our comments are focused primarily on the Large-scale Renewable Energy Target (LRET).

- CMIA strongly supports a fixed gigawatt hour LRET and maintaining a minimum of 41,000 GWh. There has been discussion of the potential for the LRET becoming a percentage outcome and this is not an acceptable change as it would undermine investment certainty, and as a result investors and lenders would apply a greater risk premium for projects in the Australian renewable energy market. This would increase projects' cost of capital.
- The LRET should not be revised to change with energy forecasts as this will only increase investment uncertainty in the development of renewable projects and will impact investor appetite for investment in renewable projects.
- The RET complements other climate change and renewable energy policies. It is important that there is support for the development of renewable energy technologies and a market based mechanism is an important instrument in achieving this.

- The Government should consider strengthening the target post-2020 and legislating for this well in advance of that date so as to promote investment certainty.
- There has been discussion around increasing the LRET target for Clean Energy Finance Corporation-funded activities. At this stage, it is too early for CMIA to comment on whether an increase of the LRET is necessary, as currently there is no clarity on the investment framework under which the Clean Energy Finance Corporation will operate.
- The shortfall charge set (being $65) is already at an appropriate level to ensure the 2020 target is met.
- New capacity in waste coal mine gas should not be included in the RET unless the target is increased by at least the amount of potential generation from that technology. However, existing commitments on its inclusion should be retained. Incentives for waste coal mine gas can be managed outside of the RET.
- The current arrangements in the settlement of Partial Exemption Certificates (PEC) is not an optimal approach given the timing differences between when a energy retailer receives the benefit of the PEC and when the PEC benefit is passed onto the liable entity. This can be managed through commercial negotiations but this adds unnecessary complexity to the process.

Recommendation: Opt in arrangements

Currently the demand for renewable energy is created by requiring certain entities to surrender a number of certificates which are equal to 1 MWh of renewable energy generation for compliance purposes each year.

Entities are liable if they make wholesale purchases of electricity from grids of greater than 200 MW.

It is recommended that a change may be introduced in the RET to allow end users to have the ability to be able to opt in to manage this cost rather than rely on their electricity supplier to do so. This is a simpler approach recommended as for the opt-in for transport fuels and gas under the Carbon Pricing Mechanism.

There are some strong reasons why the timing to introduce this change is appropriate:

1. Feedback from liable entities that they want the ability to opt in to manage carbon costs associated with transport fuels demonstrates that some liable entities wish to be able to manage their own derivative risks.

2. It would align the RET with the opt-in approach adopted in the Carbon Pricing Mechanism.

3. The RET has been increasing since its introduction in 2001, and is now a material cost to some large energy intensive businesses. It has therefore become more important to allow end users the opportunity to manage their own costs.

4. Market participants have already started decoupling electricity and REC costs during the development of Power Purchase Agreements (PPA) agreements. However, the current arrangement which mandates the wholesale purchaser of electricity to manage the RECs for all liable entities makes decoupling more difficult to agree. The ability for liable entities to opt in would remove this complexity.

5. The limited number of wholesale market participants impacts the liquidity of the RET. The ability for liable entities to opt in would create greater market liquidity and also provide project developers a greater range of participants with which to agree a PPA.

6. Experience has proven it is too complex to reach commercial agreement between an electricity retailer and an end user, primarily due to the mismatch between the tenure of the electricity contract between the end user and the electricity retailer (i.e. 1 - 3 years) and the term of a PPA (i.e. minimum of 10 years)

7. Liable entities are developing trading capability for managing of carbon units and this would also provide the capability within the business to manage the REC price risk.

8. This would overcome the issues around PEC arrangements where there are timing differences in which the end user and the electricity retailer receive the benefit of the EITE exemption.

9. The ability to opt in would certainly create more economic efficiency, including in the following ways:

- Ability for liable entities to manage REC prices more efficiently as they would avoid the additional transaction costs imposed by the intermediation of electricity retailers;
- May increase the number of projects that are introduced as there will be a larger range of participants with whom a PPA can be agreed;
- Market liquidity through more participants being able to transact in the market; and
- Incentivise end users to develop their own renewable energy projects.

RECs as a Financial Product

Consideration should be given to designation of RECs as "Financial Products " In Australia. This would:

- decrease the likelihood of fraudulent activity in the market
- help to improve liquidity because it will improve banks' ability to accept RECs as an eligible security and possibly as collateral.

Should you have any questions related to the above submission, please feel free to contact the undersigned.

Yours sincerely,

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