



**Council of Australian Governments (COAG)
Renewable Energy Sub Group**

**COAG review of specific
Renewable Energy Target (RET) issues**

Discussion Paper 2

**Self-generation provisions under the expanded
national Renewable Energy Target scheme**



INFORMATION FOR RESPONDENTS

Key Dates

9 October 2009	Discussion paper available on the Commonwealth Department of Climate Change (DCC) Website
30 October 2009	Submissions on discussion paper due

Submission Guidelines

These guidelines outline the requirements for submissions on this discussion paper in relation to a COAG review of specific Renewable Energy Target (RET) issues:

1. Submissions are invited from all interested stakeholders;
2. Submissions should utilise the **Submission Template** provided on the website to address the questions raised in this discussion paper. Additional comments are also welcomed;
3. Where possible submissions should be lodged electronically to the email address below, preferably in Microsoft Word or other text based formats. Alternatively, submissions may be sent to the postal address below to arrive by the due date;
4. **Submissions will not be treated as confidential** and may be made publicly available. Extracts of submissions may also be made publicly available in the final report provided to COAG. If a submission or extracts of a submission are to be kept confidential, please indicate this in the **Submission Template**; and
5. All submissions are due **Close of Business 30 October 2009**. The Secretariat reserves the right not to consider late submissions.

Submissions should be sent to:

Email: RET@climatechange.gov.au

Address: Renewable Energy Sub Group Secretariat
Department of Climate Change
GPO Box 854
Canberra ACT 2601

Contact details

Further information relating to the review and copies of this paper are available on the DCC website at www.climatechange.gov.au/renewabletarget/consultation.

Hard copies are available on request via telephone: 02 6159 7428 or email RET@climatechange.gov.au.

Important Notice

This paper is intended as a basis for consultation with stakeholders. The views and opinions expressed in this publication do not represent Government policy and do not commit the Australian Government to any particular proposal. While reasonable efforts have been made to ensure that the contents of this publication are factually correct, the Australian Government does not accept responsibility for the accuracy or completeness of the contents, and shall not be liable for any loss or damage that may be occasioned directly or indirectly through the use of, or reliance on, the contents of this publication.

Introduction

The expanded national Renewable Energy Target (RET) scheme is designed to ensure that 20 per cent of Australia's electricity supply is from renewable sources by 2020. Legislation to implement the expanded national RET scheme was passed by the Commonwealth Parliament on 20 August 2009.

The Council of Australian Governments (COAG) agreed to examine further some of the eligibility provisions of the RET for new small-scale technologies as well as heat pumps and rules for off-grid resource projects to ensure that the eligibility rules remain relevant over time to reflect new technologies and recent developments in renewable technology and resource project development structures.

The COAG review is also considering the potential for introducing a measure to provide additional support to off-grid renewable generation within the RET.

Terms of Reference for the Review are attached. Three discussion papers have been released on the issues outlined above. In addition to this discussion paper:

- Discussion Paper 1 relates to the eligibility of new small-scale technologies and heat pumps; and
- Discussion Paper 3 relates to support for small-scale, off-grid generation.

Focus and intent of this discussion paper – Self-generation provisions under the expanded national RET

The RET COAG review Terms of Reference state that the review will provide a report to COAG on whether changes should be made to the current provisions that allow for exemption from liabilities under the RET based on 'self-generation', which mainly affect off-grid remote resource projects. In particular the review is to investigate whether the rules continue to meet the original policy intent of excluding such projects, without creating unintended impacts on the RET's overall objective to support the deployment of renewable energy. In particular, the review is to have regard to:

- recent developments in resource project development structures; and
- the potential for the self-generation provisions to create perverse incentives for companies to change operating structures to avoid RET liability, or otherwise distort resource development decisions.

Existing RET self-generation provisions

The RET guarantees a market for additional renewables-based generation (backed by a legislative obligation), using a mechanism of tradable Renewable Energy Certificates (RECs). One REC has the value of one megawatt-hour (MWh) of renewable energy for the purposes of the scheme.

Demand is created by legally obliging parties who buy wholesale electricity (retailers and large users) to source an increasing percentage of their electricity purchases (liable electricity acquisitions) from renewables-based generation in the form of annual targets that ramp up to around 45,000 GWh in 2020 and remain at that level until the measure concludes in 2030. Liable parties can acquire and surrender RECs to demonstrate compliance. Alternatively, they can pay a shortfall charge of \$65/MWh.

The right (or eligibility) to create RECs is separate from the obligation to purchase RECs.

Liable electricity acquisitions under the RET (called ‘relevant acquisitions’), are detailed under sections 31 to 34 of the *Renewable Energy (Electricity) Act 2000* (the Act). Broadly, they comprise:

- Wholesale purchases of electricity generated on grids of 100 megawatts (MW) of power capacity or greater. These wholesale acquisitions are usually made by retailers; and
- Direct sales from generators to users, again on grids of at least 100 MW capacity.

Under certain circumstances, entities that generate their own electricity are exempt from liability under the ‘self-generation’ provisions. The self-generation provisions are outlined in paragraph 31 (2) (b) of the Act (See Attachment A).

To obtain a self-generation exemption two conditions must be satisfied:

- The end-user of the electricity must have generated the electricity; and
- Either:
 - the electricity is to be used less than 1 kilometre away from the point of generation; or
 - there is a dedicated line between the point of generation and the point of use.

Issues

The self-generation exemption was considered during development of the original Mandatory Renewable Energy Target (MRET) scheme. The Regulatory Impact Statement (RIS) for the original MRET legislation concluded that there are strong arguments for the inclusion and exclusion of self-generators.

Exclusion could be considered as supporting the development of self-generation, for which a substantial proportion uses more efficient cogeneration technologies and less greenhouse-intensive natural gas or renewables.

However, including self-generators would mean that the costs of meeting the target would be spread more widely. The self-generation exemption would also competitively disadvantage grid-based firms who purchase their electricity through a retailer.

Recognising these issues, the exemptions were tightly targeted to minimise adverse impacts. In addition, the overall renewable energy target was reduced, reflecting the amount of self-generation. Restrictions on ownership, distance and line-use were put in place to ensure that only electricity that is used by a genuine self-generator within a project site, and generally via a dedicated line rather than a public grid, is exempt.

At the time of passage of the original legislation, industry raised concerns regarding limited access to the self-generation exemptions, under the tightly-defined eligibility criteria. The Renewables Target Working Group (established to develop implementation recommendations for the measure) noted that exemptions could create incentives for changes to ownership structures simply to avoid the measure, resulting in distortions in the competitive electricity market. The Working Group noted that the existing definition of self-generators, in requiring a company to maintain ownership of a power station which is directly connected to the point of end use of the electricity in order to meet the exclusion rules, acts as a disincentive to restructuring financial or physical supply arrangements simply in order to become exempt from the measure, while still giving effect to the Government's agreement that self-generators should not be covered.

The review is to reconsider the scope of the self-generation provisions, noting the original policy intent to exclude such projects, as well as the potential for the provisions to create perverse incentives for companies to change their operating structures to avoid RET liability, or otherwise distort resource development decisions. The review will also examine the policy rationale for the self-generation exemption in light of the RET's overall objective to support the deployment of renewable energy. As annual targets under the expanded RET are fixed, broadening the exemption would increase the cost borne by other parties.

The self-generation provisions are especially relevant to remote resource development projects. Industry stakeholders have recently raised concerns that the current eligibility requirements are too restrictive, given the need for dedicated point-to-point power lines, or for electricity generation to be within 1km of the point of use.

In reviewing the current self-generation provisions, the Review will examine the scope, ownership and operating structure and electricity infrastructure needs of projects, such as those developing remote resources, to determine whether the current self-generation provisions are negatively impacting on contemporary projects.

Question: In relation to current or planned remote projects:

- What are the key characteristics of these projects in terms of activities and the layout of energy infrastructure, including distances?
- What are the ownership and electricity supply arrangements for these projects, including power generation, distribution and use, and the amount of electricity generated and used?
- What impacts do the current self-generation provisions have on optimal project design, and project viability, in particular the point to point requirements?

Attachment A: Self-generation provisions of the *Renewable Energy (Electricity) Act 2000* and associated regulations

Self-generation meeting specified exclusion criteria set out in paragraph 31 (2) (b) of the *Renewable Energy (Electricity) Act 2000* is exempt from liability. The Act also puts a 100 megawatt (MW) lower limit on liable grids as set out in paragraph 31 (2) (a).

Subsection 31 (2) reads:

An acquisition is not a relevant acquisition if:

- (a) the electricity was delivered on a grid that has a capacity that is less than 100 megawatts and that is not, directly or indirectly, connected to a grid that has a capacity of 100 megawatts or more.
- (b) the end user of the electricity generated the electricity and either of the following conditions are satisfied:
 - (i) the point at which the electricity is generated is less than 1 kilometre from the point at which the electricity is used;
 - (ii) the electricity is transmitted or distributed between the point of generation and the point of use and the line on which the electricity is transmitted or distributed is used solely for the transmission or distribution of electricity between those 2 points.

Regulations 21 and 22 of the *Renewable Energy (Electricity) Regulations 2001* prescribe processes for determining the amount of electricity in relevant acquisitions (including the points of measurement) and whether a grid has greater than 100 MW capacity.

Attachment B: COAG Terms of Reference - Review of Specific Renewable Energy Target (RET) Issues

The expanded national Renewable Energy Target (RET) scheme will deliver on the Government's commitment to ensure that 20 per cent of Australia's electricity supply is from renewable sources by 2020.

Legislation to implement the expanded national RET scheme was passed by the Commonwealth Parliament on 20 August 2009.

As part of the process of designing the RET scheme the Council of Australian Governments (COAG) agreed to examine further some of the eligibility provisions of the RET for new small-scale technologies as well as heat pumps and rules for off-grid resource projects to ensure that the eligibility rules remain relevant over time to reflect new technologies and recent developments in renewable technology and resource project development structures.

Following discussions on the RET legislation, the COAG review is also to consider whether it would be feasible to introduce a measure to provide support to off-grid renewable generation within the RET.

The Review is to provide a report to COAG before end-2009 regarding:

1. Whether any new small-scale renewable technologies that are not currently eligible should be included in the RET, as well as the eligibility of heat pumps. The review will have regard to:
 - 1.1. The extent to which the technology is cost-effective, reliable, and able to be readily deployed in the market.
 - 1.2. The impact that inclusion in the RET would have on deployment of existing eligible technologies and the market for Renewable Energy Certificates. There would be no change to annual targets under the RET legislation.

New small-scale technologies will be limited to devices which, drawing from a renewable energy source, either generate electricity or replace electrical devices (thereby displacing fossil-fuel based electricity consumption).

The review will also consider whether a regular process for assessing the eligibility of new technologies under the RET would be appropriate, also having regard to the impact on investor certainty.

2. Whether changes should be made to the current provisions that allow for exemption from liabilities under the RET based on 'self-generation', which mainly affect off-grid remote resource projects. In particular, whether the rules continue to meet the original policy intent of excluding such projects, without creating unintended impacts on the RET's overall objective to support the deployment of renewable energy. The review will have regard to:
 - 2.1. Recent developments in resource project development structures.
 - 2.2. The potential for the self-generation provisions to create perverse incentives for companies to structure their operations, to avoid RET liability, or otherwise distort resource development decisions.

3. Whether the Solar Credits or a similar mechanism under the RET should be used to provide incentives for off-grid renewable generation, and the extent to which it would benefit remote communities, particularly indigenous communities. The review will have regard to:
 - 3.1. The experience of the former Remote Renewable Power Generation Program (RRPGP) and whether its program parameters remain relevant: notably with respect to remoteness from grid, connection costs and the current and likely future cost of small-scale renewable technologies and other power generation technologies.
 - 3.2. The impact that inclusion in the RET would have on deployment of existing eligible technologies and the market for Renewable Energy Certificates. There would be no change to annual targets under the RET legislation.

Based on these terms of reference, three short issues papers will be released for public consultation on specific issues.