



Department of Climate Change

Discussion Paper 5

The treatment of 'Solar Credits' Renewable Energy Certificates under the RET



INFORMATION FOR RESPONDENTS

Key Dates

21 December 2009	Supplementary discussion paper available on the Commonwealth Department of Climate Change (DCC) Website
28 January 2010	Submissions on discussion paper due

Submission Guidelines

These guidelines outline the requirements for submissions on this discussion paper:

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) is to be kept confidential, please indicate this in the **Submission Template**; and
5. All submissions are due **close of business 28 January 2010**. The Department reserves the right not to consider late submissions.

Submissions should be sent to:

Email: RET@climatechange.gov.au

Address: Renewable Energy Team
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. The intent of the review is to help ensure that the eligibility rules remain relevant over time to reflect 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.

Public consultation has already concluded on three issues papers covering:

- **Discussion Paper 1** – Eligibility of new small-scale technologies and heat pumps;
- **Discussion Paper 2** – Self-generation provisions under the expanded national RET scheme; and
- **Discussion Paper 3** – Support for small-scale off-grid renewable generation.

As part of negotiations on the Carbon Pollution Reduction Scheme, the Commonwealth Government agreed that the current COAG process will review specific RET issues to consider whether new waste coal mine gas projects should be eligible under the RET; and whether annual targets under the RET should be increased to offset additional Renewable Energy Certificates (RECs) not backed by generation as part of the 'Solar Credits' mechanism.

Two further issues papers have been released for public consultation:

- **Discussion Paper 4** – Treatment of new waste coal mine gas power generation in the RET; and
- **Discussion Paper 5** – The treatment of 'Solar Credits' Renewable Energy Certificates under the RET.

The issues of new waste coal mine gas and Solar Credits will be further considered by the COAG Renewable Energy Sub Group and will be considered by COAG together with the other issues examined by the review of specific RET issues.

Focus and intent of this discussion paper

The purpose of this discussion paper is to outline the key issues regarding the treatment of 'Solar Credits', to encourage input on these issues from individuals, businesses and organisations to inform the review process.

The Renewable Energy Target

The RET is designed to encourage the deployment of both large and small-scale renewable energy technologies, from large power stations to household renewable energy systems. Eligible renewable energy sources under the RET include hydroelectric, wind, solar, biomass, geothermal, wave and tidal energy.

Legislation to implement the expanded national RET scheme was passed by the Commonwealth Parliament on 20 August 2009. Building on an existing legislative framework, the RET creates a guaranteed market for additional renewable energy deployment using a mechanism of tradeable RECs.

Demand for RECs is created by a legal obligation that is placed on parties who buy wholesale electricity, namely retailers and large users of electricity. Liable parties are required to source an increasing percentage of their electricity purchases from renewable energy to meet annual targets which are legislated in gigawatt-hours of renewable energy. One REC is generally equivalent to one megawatt-hour (MWh) of renewable energy. Liable parties can acquire and surrender RECs to demonstrate compliance. Alternatively, they would be required to pay a shortfall charge of \$65/MWh from 2010.

The supply of RECs is created by renewable energy power stations, as well as small generation units including small-scale solar panels, small wind turbines and micro hydro systems, and solar water heaters. RECs provide a financial incentive to invest in renewable energy technologies.

Solar Credits

The RET includes new incentives for small-scale renewable energy installations.

The RET scheme's rules allow owners of small-scale solar photovoltaic (PV) systems, small wind turbines and micro-hydro systems to create at the time of installation RECs equivalent to the output of up to 15 years operation depending on the system type.

Solar Credits provides support to households, businesses and community groups that install small-scale solar PV, wind and micro-hydro systems by multiplying the number of RECs that can be created for eligible installations. If the system is installed between 9 June 2009 and 30 June 2012, the home owner will receive five times as many RECs as under the standard deeming arrangements. As shown below, the multiplier reduces to four for systems installed from 1 July 2012 to 30 June 2013 and continues to reduce each year until it has phased out to the standard multiple of 1 from 1 July 2015.

Solar Credits multiplier profile

Year	2010-11	2011-12	2012-13	2013-14	2014-15	From 2015-16 onwards
Multiplier	5	5	4	3	2	No multiplier

Solar Credits applies to new installations of small-scale renewable energy generators eligible under the RET scheme. Solar credits apply to the first 1.5 kilowatts (kW) of capacity installed. Generation from capacity beyond 1.5 kW is eligible for the standard 1:1 rate of RECs creation.

Solar Credits and RECs created by the multiplier

By providing multiple RECs for each megawatt-hour, Solar Credits create RECs that are not backed by actual generation (for example, 4 out of 5 created from small generation installations in 2010).

Solar Credits are not expected to have a significant impact on the level of renewable energy generation under the RET. The expanded target is very large – it increases the previous target by over four times from 9,500 gigawatt-hours (GWh) to 45,000 GWh by 2020, staying at this level until 2030. RECs are also able to be created and ‘banked’ for sale in future years, but large quantities of RECs created by the multiplier may not be ‘banked’ for extended periods as they are often held by small traders concerned about liquidity.

Solar Credits will be phased out by 2015-16, recognising that technology costs are going down and the role the CPRS increasingly plays, over time, in providing incentives for renewable technologies. The timing of the phase-out means that the 20 per cent by 2020 RET target is still expected to be achieved despite the creation of multiple RECs under Solar Credits in the early years of the scheme.

However, there has been concern from some stakeholders that RECs created by the multiplier under Solar Credits will lead to less actual renewable generation than would otherwise occur. The review is considering whether to increase annual targets to offset these additional RECs created by the Solar Credits multiplier.

Costs of increasing annual RET targets to account for RECs not backed by generation

Renewable energy electricity generation is generally higher cost than that produced by fossil fuels. As such, increasing the annual targets under the RET to offset additional RECs created by the Solar Credits multiplier would increase the costs of the RET for liable parties as it would increase the number of RECs that these liable parties need to acquire under the RET. This would have a flow-on effect to households, businesses and other electricity consumers in the form of higher electricity prices. The extent of such increased costs would depend on the level of uptake of solar PV systems and other small renewable energy systems eligible for Solar Credits.

The extent of the increased annual targets and costs to electricity users may be higher if a decision was taken to provide increased support for small-scale off-grid renewable energy generation through a Solar Credits-style multiplier, which is an issue also being considered by the COAG review process on the RET. This would increase the number of additional RECs created by the multiplier, requiring larger adjustments to annual targets under the RET.

Question 1: Should annual targets under the RET be increased to offset the additional RECs created by the Solar Credits multiplier mechanism?

Mechanism to account for Solar Credits RECs

If COAG considers it is appropriate that Solar Credit RECs not backed by generation are to be offset through increased future RET targets, it will be necessary to establish a mechanism that specifies how and when these targets are to be adjusted, given the total number of Solar Credits

will only be known progressively over the next 6 years. Three broad approaches are considered below.

Annual Solar Credit uptake review and RET target adjustment

Under one approach, there could be an annual review of Solar Credit uptake in the previous year and the target for the year immediately following increased by a commensurate amount¹. This approach would have the advantage of ensuring the targets are quickly recalibrated to reflect the precise level of additional RECs created by the multiplier in the scheme.

On the other hand, frequent adjustment of annual targets could add to uncertainty around the size of the market for renewable energy, particularly if uptake of small-scale generation varies considerably in coming years. For example, in making investment decisions, financiers factor in future regulatory risk. The introduction of a new periodic review process and the knowledge that annual RET targets would change each year for a number of years could negatively impact on investment – particularly if there is significant uncertainty around the likely pattern of Solar Credits uptake.

Investors in the renewable energy sector have undertaken commercial decisions based on the current policy settings, which is why the impact of including new technologies on existing technologies is a major consideration of this review. This issue was highlighted in many submissions to the review.

Review in 2015 with adjustment of subsequent years' targets

The total number of Solar Credits RECs created under the RET will be known in the latter half of 2015. It would then be possible to increase targets in order to offset that total, but with the allocation being distributed over a period to ensure that no individual year would be disproportionately affected by a major adjustment to its target. For example, increases could be spread equally over the period 2016 through to 2020 giving 5 years of investment certainty regarding the period to 2020.

Adjust targets in the early years of the scheme and true-up subsequently for actual Solar Credits uptake

A third approach could involve increasing targets immediately for the period 2010 to 2015 to reflect currently projected Solar Credits uptake. The increase each year would be based on the annual average increase from the RECs created by the multiplier projected over the entire 6 year period.

Once the actual level of Solar Credits uptake was known, in 2015, targets for the period 2016 to 2020 would then be adjusted to 'true-up' the changes to the targets profile. This would ensure that the overall adjustments to the RECs targets for the period 2010 to 2020 reflected the actual number of additional RECs created through the Solar Credits multiplier mechanism.

This approach would maintain certainty around the targets profile in the early years of the RET scheme.

¹ The mechanism and timing of adjustments would be subject to operational considerations.

Question 2: If RET targets are increased to offset the additional RECs created by the Solar Credits multiplier, which mechanism for achieving this would be suitable? In particular, views are sought on the appropriateness of:

- an annual review of the targets; or
- a review in 2015, once Solar Credits has phased out; or
- adjustment of targets for the period 2010 to 2015 based on current projections of Solar Credits uptake, followed by a 'true-up' of targets in the period 2016 to 2020.