



Submission in relation to the Victorian Renewable Energy Auction Scheme

The Clean Energy Regulator welcomes the opportunity to comment on the Victorian Renewable Energy Auction Scheme.

This submission comprises five parts:

- » Summary
- » The renewable energy certificate market
- » The Clean Energy Regulator
- » State and territory based schemes
- » Response to Consultation Paper

Summary

This submission addresses the interaction discussed in the consultation paper between Federal policies and the proposed Victorian Renewable Energy Auction Scheme.

As the administrator of the national Renewable Energy Target, the Clean Energy Regulator has a direct interest in how state and territory based schemes affect the operation of the market for large scale generation certificates. While we make no comment on the merits of the Victorian government's policy objectives, we agree that the proposed approach avoids adverse unintended consequences and is complementary to the Renewable Energy Target.

The renewable energy certificate market

The Renewable Energy Target works by creating a market for renewable energy certificates. On the supply side, certificates are created for each megawatt hour of renewable energy generated or displaced. On the demand side, liable entities (mainly electricity retailers) buy certificates to meet their obligations under the Renewable Energy Target.

Liable entities have separate obligations for both the Small-scale Renewable Energy Scheme and the Large-scale Renewable Energy Target. These obligations require them to surrender a certain number of renewable energy certificates in proportion to the amount of electricity they acquired during the year¹. This submission focusses on the Large-scale Renewable Energy Target.

¹ The Large-scale Renewable Energy Target of 33 million megawatt hours will be met when 33 million large-scale generation certificates are surrendered in addition to any large-scale generation certificates that are voluntarily surrendered in that year

If liable entities do not purchase and surrender enough large-scale generation certificates each year, they are not compliant with the scheme and must pay a shortfall charge of \$65 per certificate. This is not tax deductible².

The Clean Energy Regulator

The Clean Energy Regulator is the independent statutory authority that administers the Renewable Energy Target.

We report annually to Parliament on the overall performance of the scheme. For the [2015 calendar year our report](#) included for the first time a statement on progress towards the target. We concluded that in 2015 progress was adequate under the circumstances and that the large-scale renewable energy target in 2020 is achievable. We also commented that this will require approximately 6000 megawatts of new large-scale renewable energy capacity to be built to meet the total cumulative demand for large-scale generation certificates through to 2020.

State and territory based schemes

A number of state and territory based renewable energy schemes interact with the large-scale renewable energy target. These schemes, alongside voluntary surrender initiatives such as GreenPower, influence liquidity of large-scale generation certificates in the secondary market.

If the supply-demand balance is tight, as we anticipate it will be in the medium term, policies intended to promote renewable energy generation above the level required by the Renewable Energy Target could have unintended consequences. A circumstance could arise whereby sufficient renewable electricity had been generated to meet the target but liable entities are unable to secure enough certificates to meet their obligations. This would increase costs, potentially to the detriment of electricity consumers, without achieving the policy objective of above-target generation.

Response to Consultation Paper

We note that the consultation paper sets out the Victorian Government's intention that projects commissioned:

- » before 2020 will be 'complementary' to the large-scale renewable energy target – i.e. projects would be eligible to create large-scale generation certificates to acquit obligations, and
- » after 2020 will be 'additional' to the large-scale renewable energy target and will have to surrender any created large-scale generation certificates to the Victorian Government.

The Clean Energy Regulator acknowledges this approach would avoid the unintended consequences discussed above. We agree that the effect would be complementary to the Renewable Energy Target as intended.

We note also that the proposed 2020 cut-off is based on an assumption that the capacity needed to meet the RET will have been commissioned by that point in time, and that the Victorian Government will want to avoid oversupplying the LGC market. We agree this is an important consideration. Investment intentions today are influenced by developers' and financiers' views about the outlook for the LGC market beyond 2020. The renewables market, and ultimately electricity consumers, will benefit from a clear statement of intent about the treatment of large-scale generation certificates created in connection with the proposed renewable energy auctions.

² The cost of certificates surrendered against liability is tax deductible, however the shortfall charge of \$65 is not. For an entity paying full corporate tax the shortfall charge is equivalent to a cost of \$93 per large-scale generation certificate