

## THE ENHANCED RENEWABLE ENERGY TARGET

By Dermot Duncan and James Hoy

### INTRODUCTION

The Federal Government has sought to restore confidence in the renewable energy market by introducing the *Renewable Energy (Electricity) Amendment Act (No.69) 2010 ("Act")* to improve the functioning of its Renewable Energy Target Scheme ("RET"). The Act received Royal Assent on 28 June 2010 and will commence operation on 1 January 2011. The Act has bipartisan support.

### THE PREVIOUS RET SCHEME

The previous RET scheme aimed to deliver on the Federal Government's commitment that 20 per cent of Australia's electricity supply will come from renewable sources by 2020: staying at that level until 2030.

The scheme set out to achieve this by creating an obligation for electricity retailers to surrender a set quantity of Renewable Energy Certificates ("RECs") each year or pay a shortfall charge of \$65 (net) per megawatt hour instead.

### PROBLEMS WITH THE PREVIOUS SCHEME

The eligibility of small-scale technologies such as solar water heaters and heat pumps under the previous scheme were having a negative impact on the REC market and delaying investment in large-scale renewable energy projects.

Reasons for the relatively low REC price under the previous scheme included:

- the oversupply of RECs through small-scale system installations coupled with government subsidies of these technologies;

- the domination of the spot market by small industry players who frequently sell their RECs for liquidity reasons; and
- the perception that there is a large quantity of banked RECs.

### CHANGES TO THE RET

The Act will "enhance" the RET by splitting its operation into two distinct markets: the Small-scale Renewable Energy Scheme ("SRES"); and the Large-scale Renewable Energy Target ("LRET").

This will create separate obligations on electricity retailers with respect to small-scale and large-scale renewable energy generation and involve separating the categories of renewable energy certificates into: small-scale renewable energy certificates ("SRECs"); and large-scale renewable energy certificates ("LRECs").

### THE SRES

The SRES will fix a new price of \$40 per REC for small-scale technologies such as solar panels and solar water heaters.

There will be no cap on the creation of fixed price SRECs to ensure that all eligible small-scale technologies are supported under the SRES.

Liable entities (electricity retailers) will not be able to purchase SRECs from the SRES to meet liability in the large-scale market (i.e. LRET).

The Federal Government will consult on draft regulations later this year, which may give the

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Renewable Energy Regulator the power to reduce the Solar Credits multiplier under the SRES or increase the kilowatt (“kW”) capacity limit from 1.5 kW to 3 kW.

### **THE LRET**

The LRET will impose a target for large-scale renewable energy generation such as wind farms, solar and geothermal of 41,000 gigawatt hours (“GWh”) by 2020.

This expanded target for large-scale renewable energy is designed to ensure that the overall target of 45,000 GWh by 2020 is met even if the uptake of small-scale technologies is lower than predicted.

The fact that the number of SRECs will be uncapped means that the RET is now likely to be exceeded if, as expected, small-scale technologies produce more than 4,000 GWh of electricity by 2020.

### **WHO WILL BE AFFECTED BY THE CHANGES?**

The changes to the RET will impact:

- electricity retailers who are required to purchase or create a set quantity of RECs;
- organisations and households that generate RECs from eligible sources;
- retail purchasers and end users of electricity (e.g. building owners and tenants); and
- manufacturers and installers of renewable energy technologies.

### **HOW WILL THE CHANGES IMPACT INVESTMENT?**

The passing of the Act should encourage greater investment in large-scale renewable energy projects. The creation of separate schemes will allow big wind projects and others to grow free from the uncertainty caused by the influx of small-scale technologies.

Under the LRET, the market will set the price for LRECs, which should result in greater economic incentives for such projects.

The changes should also encourage investment in small-scale technologies. However, removing the cap on SRECs will add some uncertainty in terms of the number of certificates.

Nonetheless, fixing the price of SRECs should increase the confidence of businesses and households looking to invest in small-scale technologies under the SRES.

### **CONCLUSION**

The passing of the Act is a positive step by the Government towards delivering on its commitment that 20 per cent of Australia’s electricity will come from renewable sources by 2020.

The changes will improve certainty in the LREC market and should encourage more businesses to invest in large-scale renewable energy projects and small-scale technologies.

For advice and assistance on:

- structuring your transactions in respect of SRECs/LRECs;
- financing methods to assist in implementing Renewable Energy and Energy Efficient upgrades;
- permit trading of SRECs/LRECs;
- negotiations with Renewable Energy/Energy Efficiency Suppliers; and
- meeting your legislative obligations,

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