

Carbon Pricing Briefing Note

Date: 5 May 2009

Subject: Expanded Renewable Energy Target

Background:

At the last Council of Australian Government (COAG) meeting it was agreed to increase the current Mandatory Renewable Energy Target (MRET) from 9,500 GWh to 45,000 GWh by 2020. The new scheme will be known as Renewable Energy Target (RET) with the legislation expected to be passed prior to 1 July 2009

The new expanded Renewable Energy Target builds on the existing MRET scheme. It effectively require liable parties, especially electricity retailers, to source 20% or 45,000 GWh of electricity, from eligible renewable sources by 2020.

When an eligible renewable source, such as wind or hydro, generates 1 MWh of electricity it is awarded 1 Renewable Energy Certificate (REC). Other eligible renewable energy source such as solar hot water systems or solar PV are awarded a certain amount of RECs up front, depending on i.e. system size and location.

Liable parties must each year surrender a certain amount of Renewable Energy Certificates (RECs) in order to comply with the scheme or face a shortfall penalty charge per REC not surrendered.

The following list the key points of the expanded Renewable Energy Target (RET).

RET:

RET will commence on 1 January 2010 and end 31 December 2030.

The expanded Renewable Energy Target is in addition to the proposed Carbon Pollution Reduction Scheme (CPRS).

RET Review

The review of the operation of the RET scheme will be undertaken in 2014 to coincide with the review of the proposed Carbon Pollution reduction Scheme (CPRS).

Shortfall Charge:

The shortfall charge will increase from the current \$40 per REC to \$65 per REC (non indexed). The shortfall charge will continue to be non tax deductible, which effectively sets a new shortfall charge of \$92.86 at 30% tax.

RET Annual Target

Year	Annual Target in GWh
2010	12,500
2011	14,400
2012	16,300
2013	18,200
2014	20,100
2015	22,000
2016	26,600
2017	31,200
2018	35,800
2019	40,400
2020	45,000
2021 – 2030	45,000 per year

It is worth noticing that the target is kept static at 45,000 GWh from 2020 to 2030 compared to the draft, which displayed a ramp down rate from 45,000 GWh in 2020 to 23,000 GWh in 2030. This provides greater investment certainty and opportunities for longer term investments projects, such as i.e. wind farms.

Banking of RECs:

RET continues the same treatment for banking of RECs as under the MRET scheme. This effectively means that RECs created in any year and not surrendered by liable parties can be “banked” and used for any future years liability.

Multiplier for Renewable Energy Certificates Created by Small Generation Units.

RET includes a multiplier known as solar credits to be applied for RECs created by small scale solar (Solar PV) and hydro electric systems. Solar credits will have the following REC multiplier for systems up to 1.5 KW.

Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 onwards
Multiplier	5	5	5	4	3	2	None

The above REC multiplier replaces the current Governments solar rebate of up to \$8,000 per system.

Assistance to Electricity Intensive Trade Exposed Industries.

A legislated partial exemption from liability under the RET scheme will apply to all activities eligible for assistance as Emission Intensive Trade Exposed (EITE) industries under the CPRS. This applies to either 60 or 90% of their expanded RET liability that applies to electricity used in activities eligible for EITE assistance.

Eligibility of Certain Renewable Energy Sources.

The scheme provides a list of approved renewable energy sources, which list the amount of Renewable Energy Certificates each renewable energy source is awarded. The amount of RECs awarded for the majority of approved renewable energy sources is simply 1 REC for every 1 MWh of electricity generated. This applies to i.e. wind farms and hydro. Other eligible renewable energy sources are awarded RECs upfront, which applies to i.e solar hot water systems and heat pumps.

The Commonwealth will prepare a report to COAG before the end of 2009 to examine the eligibility of heat pumps as well as new small scale renewable technologies that are not currently eligible under the RET and current self generation provisions of the RET, which mainly affect off grid remote resource development, to ensure that they are meeting the original policy intent to exclude such projects without creating any unintended impacts on the RET overall objectives.

One should note that the above mentioned future report to COAG does not have any impact of any existing or future projects for i.e. wind farms and only applies to the mentioned heat pumps, new small scale renewable technologies and current self generation provisions of the RET, which mainly affect off grid remote resource development.

For further information:

Claus Larsen
Carbon Analyst
03 8633 6392
clarsen@agl.com.au

Kirsty Norris
General Manager
03 8633 6381
knorris@agl.com.au

Beth Griggs
Policy and Regulation
03 8633 6077
bgriggs@agl.com.au