

30 July 2008



The Renewable Energy Sub Group Secretariat  
Renewables, Offsets and COAG Branch  
Department of Climate Change  
GPO Box 854  
canberra ACT 2601

**Comments on Design Options for the Expanded National Renewable Energy  
Target Scheme**

**Thank you for the opportunity to review the paper. We welcome the proposal to  
develop national standards for Renewable Energy targeting and management**

**Please find attached our comments regarding the "Design Options for the Expanded  
National Renewable Energy Target Scheme". The comments are confined to the  
items that we have specific concerns or opinions on. If not specifically mentioned we  
are in broad agreement or are unaffected by the principle suggested.**

**If you require any further clarifications please feel free to contact Mr. Steve Devon,  
Manager Strategy & Evaluation on (08) 63101857,**

A handwritten signature in purple ink that reads "PP Tudor".

**Frank Tudor  
General Manager Strategy and Business Development**

| Issue  | Comment   |
|--|---|
| 2.1 Liability and annual targets                   | Our preference is for a scheme similar in nature to the Victorian RET scheme, with a ramp up and ramp down phase on targets   |
| 2.2 Eligible sources                               | Retaining the eligibility for solar hot water systems is a critical factor in reducing generation capacity requirement. The indirect "assistance" provided by the aggregation and sale of the RECs that accompany these systems encourages consumers to utilise this technology. Removal of RECs would make them less attractive pushing consumers back onto the electricity grid and increasing emissions in general, counter to the rationale of this whole programme. The impact could be significant as Hot Water typically comprises approximately 30% of residential household consumption of energy. |
| 2.3 Banking  | A balance needs to be struck between long term risk management utilising some form of REC banking and the need to continue to stimulate investment in low emission technologies. We would like to see further discussion on the issue.  |
| 2.4 Project eligibility periods                    | Our view is that limiting the eligibility period may impact on the economics of generation. Investment in generation assets is typically predicted over longer periods than the 15 year eligibility period suggested in the paper, often it is 20-30 years. Shortening the eligibility period would press investors to recoup their capital in a shorter time period pushing up the overall generation cost.  |
| 2.5 Existing generators                            | Any additional generation capacity added to pre 1997 facilities should be eligible for inclusion in the programme   |
| 2.6 Duration and phase-out                         | In this section we have concerns over the proposal to reduce the non compliance penalty. This could alter the investment decisions of renewable vs. non renewable generation for a period as the programme winds down, potentially promoting a period of higher emission generation investment. Properly phased integration of the phase out of this programme into the introduction of the Carbon Pollution Reduction Scheme would limit this potential issue.   |
| 2.7 Compliance mechanisms                          | As this section highlights, if the spot price exceeds the non compliance charge, there will no incentive to comply. The indexation of the current shortfall charge with CPI is most probably inadequate. Spot pricing at this point is fast approaching that level. A suggestion is a mechanism that utilises the spot price in some way plus a premium i.e. last 3 months average root price plus 20%  |
| 2.8 Trade-exposed electricity-intensive industries | Need to see any proposals in more detail  |
| 3.1 Approach 1 - Option 1                          | Phasing out of the shortfall charge without a defined control mechanism to replace i.e. Carbon Pollution Reduction Scheme (ETS/CPRS) could encourage investment in higher emission generation capacity as the penalties to do so will be reduced. An appropriately phased implementation of the ETS/CPRS would negate this concern. At this point in time this has not been specifically addressed hence our concern.   |
| 3.1 Approach 1 - Option 2                          | Similar to our concerns about Approach 1 - Option 1, lowering target could encourage a similar response in decisions on the type of generation capacity chosen for new capacity being built towards the end of the scheme.  |