

1 August 2008

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

Dear Secretariat

**RE : Design Options for the Expanded National Renewable Energy Target Scheme**

Melbourne water would like to make the following comments on the design options paper.

Should you need further information about these comments contact me on 03 9235 7219

Erik Ligtermoet  
Project Manager, Environmental Regulation and Reporting

Melbourne Water Comments  
General

Melbourne water supports the continuation of the mandatory renewable energy program as it is an efficient way to develop the most efficient forms of renewable energy under a simple regulatory regime. It will be critical to make sure that the emerging Carbon Pollution Reduction Scheme (CPRS) is designed so that there is a clear distinction between obligations under the Renewable Energy Target (RET) and those under the CPRS. The CPRS green paper is unclear how this will occur although it would be quite easy to do. Melbourne Water suggests retaining the RET and the increased national target of 45 000 MWh and allowing surplus RECs created under it to be converted into carbon reduction credits by applying the state based emission factors for grid supplied electricity.

Specific

*Stakeholders' views are sought on the scope of design issues under consideration, their interactions, and other issues that should be addressed during design of the expanded scheme.*

Some consideration on how RET will interact with the Carbon Pollution Reduction Scheme is needed.

*Stakeholders' views are sought on possible approaches to setting annual targets and their implications for investment mix, generation profile and cost of the measure.*

The national annual RET should incorporate all existing scheme targets and allow for the widest acceptable range of renewable energy methods.

*Stakeholders' views are sought on the treatment of renewable energy sources and technologies, including the treatment of forest biomass and solar water heaters.*

Renewable energy included should be restricted to those that generate electricity. Non electricity renewable energy should be covered by the CPRS.

*Stakeholders' views are sought on approaches to banking of RECs and their potential impacts on investment profile, generation level and technology mix and on the cost of the measure.*

Unlimited banking should be allowed for RECs to maximise flexibility for investors in renewable energy.

*Stakeholders' views are sought on the implications of restricting the eligibility period for projects under the scheme.*

Eligibility to trade RECs should last as long as the scheme does. Excess RECs should be able to be used in the Carbon Pollution Reduction Scheme through appropriate conversion factors.

*Stakeholders' views are sought on how projects already in operation should be treated and whether projects predating 1997 should be treated differently from those predating 2007. Stakeholders' views are also sought on the treatment of additional generation created, for example, through capacity additions or refurbishment.*

The test for new generation should be the same as the existing scheme. RECs surplus to the current Mandatory Renewable Energy Target as it is implemented should be able to be used towards the new RET.

*Stakeholders' views are sought on methods and timing for phasing out the RET scheme between 2020 and 2030 and on their implications for investment profile, generation level, technology mix, and the cost of the measure.*

The method to phase out the RET as the Carbon Pollution Reduction Scheme matures should be based on the cost of renewable energy. Once the cost of renewable energy is less than or equal to the cost of non renewable energy plus an amount equivalent to the cost of carbon then the RET can be phased out, replaced in full by the Carbon Pollution Reduction Scheme.

*Stakeholders' views are sought on the appropriate level of the shortfall charge, in particular on whether it should be set at a very high level to encourage compliance or at a level only slightly above the maximum expected REC price.*

The shortfall charge should be based on an amount greater than the difference between the full costs of renewable energy and non renewable energy.

*Stakeholders' views are sought on the phase-out options under Approach 1.*

Option one in Approach one is favoured.