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Unforeseen destabilising effects of the proposed RET Market changes

RET Market Background

The Renewable Energy Target was implemented in 2001 to encourage the uptake of renewable energy technologies and help reduce greenhouse gas emissions. The scheme operates by the trading of Renewable Energy Certificates (RECs) between the liable parties, the registered agents, and the owners of RECs.

The market mechanism was elegantly crafted with two facets, “large scale” and “deemed” to ensure transparency and depth. With so few players at the top end the pricing of RECs through the installation of large-scale renewables was deliberately anchored to the pricing of small deemed RECs to provide a sense of balance.

Splitting the RET and fixing the price of the RECs for deemed technologies breaks both facets of this original intention and will likely lead to eventual price distortion in the large scale category. As the economies of scale drive future price reductions in the deemed category, it could cause those underlying technologies to become cost neutral in a short space of time, especially if the deemed sector is to be uncapped.

As the REC mechanism will be a “cost pass through” for the energy retailers there will be no incentive to keep the price of large scale RECs down - the price of energy will automatically go up. With only a handful of utility scale renewable energy developers and no fungibility or balance between the two facets the REC price will remain high. High activity in an uncapped deemed segment and the attendant cost pass through will result in the cost of energy skyrocketing and cause uncontrolled cross subsidisation.

If implemented these proposed changes could destabilise the introduction and ongoing operation of a Carbon Pollution Reduction Scheme, preventing Australia from realising a deliverable price on carbon and achieving a low carbon economy.

How will Greenbank Environmental be affected.

Greenbank has been trading RECs since 2003 and is now one of the largest independent traders in Australia. Based at Nunawading in Victoria we employ seventeen people and we register over 1.3 million deemed RECs annually with a turnover exceeding \$50M.

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Greenbank Environmental is significantly affected by these proposed changes to the SRES as the creation of the "Clearing House" within the Office of the Renewable Energy Regulator (ORER) is going to be in direct competition with the registered agents.

ORER will be offering the service that we and others have diligently provided for the last seven years at a fixed price of \$40.00 and will become a quasi Medicare. ORER will now be "regulating" its own internal creation of RECs under the scheme. The government agency has gone into competition with its service providers.

Dept of Climate Change & Energy Efficiency disregard the fact that fixing the price at \$40.00 will set a new benchmark for the REC price and it will be very difficult for the agents to provide any service to the public and as a consequence the "creation and compliance" provided by the registered agents will be at risk. It is a simple market mechanism; you cannot trade under a cap of \$40.00.

The failure to address the current oversupply of RECs in the market will not deliver utility scale projects in the near term. DCCEE claim that this oversupply adds liquidity, I believe this is false liquidity when in the longer term they will be short and the price of the RECs will remain up around the after tax price of RECs in the LRET of \$90.00.

These changes not only drastically affect our business model and our worth as a commercial entity it affects the renewable energy sector more widely. In Dubbo NSW there is a company giving away 1.5kW PV Systems just for the price of the Renewable Energy Certificates, this may take this industry down the path of the insulation industry.

Photo-voltaic systems must be connected by registered electricians, this gives a greater sense of security but it does show that with the solar credits multiplier and the feed in tariffs the cost of PV has dramatically reduced.

As all of these measures are "cost pass throughs" to the public we have a responsibility to get the best value from them. The structure of the proposed changes does not deliver a *least cost mechanism* to the RET measure whether it be LRET or the SRES and we as a country and as taxpayers will be paying more than necessary for the whole target.

I am happy to make myself available to the committee should you require it.

Yours sincerely,

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CEO

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