

Australian Government
Department of Climate Change, Energy, Environment and Water

Submitted via email: GuaranteeofOrigin@industry.gov.au

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Renewable Electricity Certification Policy Position Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the Department of Climate Change, Energy, the Environment and Water's ('DCCEEW') consultation on *Renewable Electricity Certification* ('Policy Position Paper').

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The Renewable Energy Target (RET) scheme has helped incentivise renewable electricity investment across Australia. In recent years, the RET has become an important part of the voluntary carbon market, enabling climate ambitious companies to offset their emissions through the additional surrender of large-scale generation (LGC) certificates. Its expiry in 2030 necessitates the creation of a new policy mechanism to price and trade renewable electricity certificates beyond this decade.

The AEC therefore supports the proposed creation of a Renewable Electricity Guarantee of Origin ('REGO') mechanism to support Australia's transition to a net-zero economy. An effective certification framework provides important economic incentives for renewable energy projects, encourages innovation in areas like zero carbon hydrogen production and exports, and allows electricity users – both large and small businesses and everyday customers – to have partial or fully verifiable renewable electricity consumption.

The AEC considers the design laid out in the Policy Position Paper to be mostly sound, however there are some features that require further consideration and consultation. The Department should also consider whether making certain design attributes immediately mandatory is cost-efficient, noting the administrative burden it places on REGO producers at a time when the market for these attributes is still emerging. These concerns are explained in more detail below.

Urgency of REGO creation

With the RET set to expire in 2030, there is still some time until the future certification market comes into force. It is important that this future market is designed carefully because it will ultimately be critical to Australia's energy transition and the functionality of a voluntary carbon market with the decisions made now likely to be enduring.¹

While it is appropriate to be asking design questions now, the Department should keep in mind that not all design elements must be made at once. The impetus for considering these design questions now is to give a degree of clarity to proponents looking to invest in projects that will operate beyond 2030. The AEC considers design elements with already well-established rules and protocols, such as the eligibility of large-scale generation, can proceed without delay to provide this certainty.

¹ We cite as precautionary examples of enduring flaws in the initial design of the existing Renewable Energy Target: the non-deductibility of shortfall charges and loss factor discounting.

However, there are some design elements within this Policy Position Paper – notably the inclusion of small-scale generation – that are new and may add significant complexity and risk to a future scheme depending on their design. These elements deserve targeted deliberation to work through these potential risks before making enduring decisions, and we encourage the Department to proceed more slowly with these reforms.

Participant eligibility

Eligibility of large-scale generation (Proposal 5 and 6)

The AEC supports the widening of the eligibility criteria for large-scale generation to allow below-baseline generation (renewable generation assets created before 1997) into the REGO scheme. Baselining was necessary at the commencement of the RET to create an incentive to invest in a relatively small volume of then expensive wind and solar without having the incentive “swamped” by legacy hydro. This circumstance is no longer relevant to today’s market where wind and solar are in fact the dominant renewable energy. The AEC considers that distinguishing certificates based on build date is not consistent with contemporary consumer expectations with respect to voluntary surrender. In any case, disallowing some renewable capacity based on the year of the asset would be arbitrary and would overlook the need for ongoing investment in below-baseline assets.

The AEC is also comfortable with proposals to allow electricity exports and offshore generation into the certification scheme.

Eligibility of small-scale generation (Proposal 7)

Depending on the design, the AEC has some concerns with expanding the eligibility criteria to include small-scale generation in the scheme. It seems unlikely that customers voluntarily surrendering renewable energy certificates would expect it to have been created from behind the meter assets, especially in relation to energy which is consumed within the premises.

As measuring small-scale generation introduces significant complexity into the scheme, the AEC would prefer there be a separate voluntary scheme for small-scale generation, and subject to a deeming process. Metering would be highly costly and administratively burdensome. The AEC recommends that the Department undertake further consultation on how to best include and measure small-scale generation.

Eligibility of energy storage facilities (Proposal 4)

Energy storage facilities are an emerging technology that will play an important role in Australia’s energy transition. While batteries do not directly produce renewable generation, they can enable the provision of renewable electricity at different times of day. As energy storage has not previously participated in a certification scheme in Australia, there is some uncertainty about its operation.

The AEC, in principle, supports extending eligibility to cover energy storage, but is yet to form a confident view on how this can be done without causing double counting and/or administrative complexity. The AEC suggests the Department develop a preferred high-level stance on the inclusion of energy storage at this time to provide investor confidence, and then undertake targeted consultation with stakeholders to explore the best mechanism.

Design and attributes of REGO

Energy Attribute Certificate schemes are emerging overseas in response to market demands for more information about the renewable electricity they are using. This information can add product differentiation into the voluntary certificates market as customers might be willing to pay a premium

to meet certain needs (for example, a customer seeking 24/7 clean energy might pay more for certificates produced at a certain time of the day).

Nonetheless, this type of high functioning market is still emerging and there is a risk that mandating these attributes will add significant administrative costs and complexity at a time when market demand is not there. For this reason, the AEC considers that these attribute features should be voluntary. Certificate producers should have the option to provide this additional information in response to customer demand for it.

Furthermore, the Department should recognise that some attributes are more burdensome than others and might require additional time to develop a regulatory framework before commencement. A staged rollout of attribute features is preferred if the Department opts for a mandatory approach.

Time stamping (Proposal 12)

The AEC considers incentives to encourage projects that can provide 24/7 renewable electricity are best pursued through electricity market design. While there can be additional incentives through mechanisms like this, it must be careful to avoid overburdening the certification market. For example, depending on the level of granularity sought, there could be thousands of separate REGO markets per year (one for every hour of generation based on region and grid). This seems less than ideal.

The more practical challenge with time stamping is the immense administrative burden and costs it places on REGO creators. While generators do record some time information, the process of converting it into a REGO timestamp is not straightforward. The AEC's view then is that the demand for time-matched information is not currently there to justify the costs of mandating this feature. It is preferred this feature be voluntary and for producers to be incentivised to progressively build efficient time-stamping processes commensurate to customers willingness to pay for this certificate attribute.

Power station age (Proposal 10)

The apparent purpose of this attribute is to create a market around the “newness” of the generation asset – the Department speculates that some customers ‘want to purchase electricity from new power stations to support additional renewable generation investment’. However, the AEC has some concerns with the inclusion of power station age as an attribute, as there are some risks this information could be misleading.

This definition is not straightforward because generators regularly perform maintenance and equipment upgrades to their assets so the age of commissioning may not accurately capture the “newness” of the renewable energy. Furthermore, while customers can ultimately decide what they want value in, it is not obvious what additionality the year of commissioning gives to a certificate (i.e. it is not a reliable indicator of the level of investment in renewable generation).

The AEC prefers this to be a voluntary feature that REGO operators can opt into in response to customer demand, which will require further consideration with respect to brownfield investment.

The Department should also consider whether this information attribute might have some unintended consequences for the certificate market. Power station age will lead to certificates being recognised at a facility level. On the one hand, this could provide some co-benefits to the certification (e.g. if a customer wants to support a particular company or fuel type). On the other hand, it might lead to a stratified market that lowers the liquidity of certificates (e.g. if some facilities are arbitrarily discriminated against based on age).

Location of generation (Proposal 11)

The AEC is comfortable with the inclusion of a location stamp on REGO certificates.

Proxy surrender (Proposal 16)

The AEC does not support requirements for “proxy surrenders” to identify the organisation on whose behalf the REGO is being surrendered. This would impose a large regulatory burden on retailers, given that they would be required to hypothecate potentially large volumes of certificates at the time of surrender. This may be difficult given that retailers may need to true-up their internal customer certification allocation after the relevant surrender date.

If the Department is concerned about misleading conduct, this is better pursued through the ACCC’s existing regulatory powers.

Emissions intensity measures

A suggestion has arisen through the AEC’s membership of alternatively stamping the certificate with *only* the contemporaneous grid emissions intensity. The grid intensity indicates the marginal carbon abatement of the increment of renewable energy. In other words, a renewable MWh in a fully decarbonised grid has no marginal abatement value whilst a MWh in a very high emissions grid has a high abatement value.

A voluntary surrenderer who wishes to abate a ton of carbon would achieve this by weighing the volume of renewable certificates being surrendered by their stamped grid intensities. If this is the only stamp on the certificates it would focus the market on the ultimate purpose of renewable energy - its emissions abatement value - and would avoid market stratification.

The AEC has not formed a view on this suggestion at this time but encourages the Department to consider and conduct soundings on it.

Whether or not this suggestion is pursued, the AEC encourages the Department to work with the Australian Energy Market Operator to amend its Carbon Dioxide Equivalent Intensity Index (CDEII) from its current daily basis to a dispatch interval basis and extend it to the Western Australian Wholesale Energy Market. Shifting the CDEII to a dispatch interval basis will allow more accurate estimations of emissions associated with electricity production and use.

Market-based accounting approach

The AEC supports using a market-based accounting approach, which accounts for marginal loss factors, and is consistent with current international standards.

Clean Energy Regulator as administrator (Proposal 1)

The AEC agrees the Clean Energy Regulator is the most appropriate regulator to administer any future renewable electricity certificate mechanism. Leveraging the CER’s familiarity and expertise with the certificate market will help maintain trust and reduce the compliance burden on participants.

Any questions about this submission should be addressed to Rhys Thomas, by email Rhys.Thomas@energycouncil.com.au or mobile on 0450 150 794.

Yours sincerely,

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