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*Practice Group(s):*

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## Release of Expert Panel Report on the Australian Renewable Energy Target

*By Jenny Mee, Larissa Hauser and Jemimah Roberts*

### Overview

On 28 August 2014, the Expert Panel on the Renewable Energy Target (RET) (Panel) released its long-awaited Report on the RET scheme in Australia, recommending that both the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES) be modified through a number of proposed options. Under the more drastic of these proposals, the Panel recommended that the LRET be closed to new entrants, and that the SRES be abolished immediately.

### Background

The RET has been operating in various forms since the Mandatory Renewable Energy Target (MRET) commenced in 2001. The expanded RET scheme, which commenced in January 2010, is designed to ensure that at least 20 percent of Australia's electricity comes from renewable sources by 2020. The scheme operates in two parts: the LRET and the SRES.

The RET scheme legislation prescribes regular reviews of the scheme's operation to ensure that it is operating efficiently and effectively. On 17 February 2014, the Minister for the Environment and Minister for Industry announced terms of reference for a review of the RET scheme by an Expert Panel.

### Recommendations

#### *Large-scale Renewable Energy Target*

The Panel recommended that one of the following two options be adopted in respect of the LRET:

#### **Option 1 - Closing the LRET to new entrants**

- The LRET would be closed to new entrants (subject to limited exceptions including renewable energy power stations already under construction).
- The Clean Energy Regulator (CER) would set targets annually based on estimated output from accredited power stations.
- The last year of operation of the LRET would be 2030.

The Panel considered that this approach would provide investors in existing renewable generation with continued access to certificates (so as to avoid substantial asset value loss) and retain the emission reductions that have been achieved so far. It also considered that this approach would avoid *"the costs to the community associated with*

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*subsidising additional generation capacity that is not required to meet electricity demand".<sup>1</sup>*

### Option 2 - Modifying the LRET to increase in proportion with growth in electricity demand

As an alternative, the Panel recommended that the target be set to allocate a share of growth in electricity demand to renewables in the following manner:

- The target would be set annually by the CER, increasing each year to 2020 by an amount equivalent to 50 percent of projected growth in national electricity demand.
- Where national electricity demand is projected to remain flat or fall, the target would be held at the previous year's level.
- The target would be fixed at the 2020 level from 2021 onwards.
- The last year of operation of the LRET would be 2030.

The Panel considered that this approach would protect the broader community from "*the cost of subsidising unnecessary additional generation capacity if electricity demand continues to fall*".<sup>2</sup> The Panel suggested that based on current electricity demand forecasts, this approach would achieve a 20 percent share of renewables in the electricity generation mix by 2020.

The Panel conceded that this approach would expose renewable energy investors to market risk due to uncertain demand forecasts,<sup>3</sup> but was of the view that this risk is the same that other investors in the market currently face.

### Small-scale Renewable Energy Scheme

#### Option 1- Abolition

The first option recommended by the Panel is that the SRES be immediately closed in the following manner:

- The SRES should terminate upon announcement.
- Parties who have already contracted (before the announcement) for the installation of a small-scale system should receive the certificates to which they would otherwise have been entitled had the announcement not occurred.

The Panel is of the view that this approach is justified on the basis that the significant cost reductions of small-scale solar PV systems, combined with the increase in retail electricity prices, means that the small-scale renewable energy industry is becoming commercially viable on its own, and no longer requires support through the SRES.<sup>4</sup>

However, the Panel noted that "*the immediate effects of repeal of the SRES on the industry could be significant, including job losses and the possible stranding of investments made by the small-scale industry in manufacturing facilities*".<sup>5</sup> It also noted that the impact of abolishing the SRES may be greater for the solar water heater industry.<sup>6</sup>

<sup>1</sup> Renewable Energy Target Scheme - Report of the Expert Panel (RET Report), page iv.

<sup>2</sup> RET Report, page iv.

<sup>3</sup> RET Report, page 63.

<sup>4</sup> See pages 66 and 76 of the RET Report.

<sup>5</sup> RET Report, page 76.

<sup>6</sup> RET Report, page 70.

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### Option 2- Accelerating the phase-out of the SRES

As an alternative to immediately abolishing the SRES, the Panel considered that the costs of the scheme could be reduced by shortening the duration of the scheme and reducing the level of the cross-subsidy.<sup>7</sup> Under this approach:

- The last year of operation of the SRES would be brought forward from 2030 to 2020.
- The period for which certificates may be created for rooftop solar PV systems would be reduced from 15 year to 10 years. In each year from 2016 onwards, the period for which certificates may be created would be further reduced until closure of the scheme at the end of 2020.
- The size eligibility threshold for rooftop solar PV systems would be reduced from a maximum of 100 kilowatts to a maximum of 10 kilowatts.
- The period for which certificates may be created for solar and heat pump water heaters would be reduced by one year each year commencing in 2016.

Restricting size eligibility of installations to less than 10 kilowatts would effectively eliminate the commercial-scale solar market, limiting the scheme to households or small businesses.

### Further recommendations

The Panel made further recommendations on other issues within its terms of reference, including maintaining the current partial exemption arrangements for emissions-intensive trade-exposed businesses; expanding the self-generation exemption to accommodate a broader range of circumstances; and removing the requirement for statutory reviews of the scheme from the *Renewable Energy (Electricity) Act 2000 (Cth)*.

### Reactions

The clean energy industry has been quick to condemn the report. Clean Energy Council Acting Chief Executive Kane Thornton commented that the recommendations proposed by the review would bankrupt the industry, and put thousands of workers out of a job, while terminating competition and innovation in the Australian energy sector. In Federal Parliament, Greens leader Senator Christine Milne stated that proposed changes had created *"such uncertainty in the renewable energy sector that billions of dollars' worth of investment are now stalled and on the sidelines and existing projects are under severe threat"*.

By contrast, the Australian Petroleum Production and Exploration Association came out in support of the Panel's findings, stating that the recommendations would *"go some way to reduce the ongoing costs of the RET"*.

### Next steps

The Federal Government has not yet publicly announced its response to the Report. Even if a decision is made to adopt the Report's recommendations, legislative changes to the RET scheme during this term are likely to be resisted in the Senate by the Labor Party, the Greens and the Palmer United Party.

<sup>7</sup> See pages 71-78 of the RET Report.

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### Authors:

**Jenny Mee**

jenny.mee@klgates.com

+61.2.9513.2555

**Larissa Hauser**

larissa.hauser@klgates.com

+61.2.9513.2396

**Jemimah Roberts**

jemimah.roberts@klgates.com

+61.2.9513.2406

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