

# RET Administrative report 2015 annual statement

## Progress towards the 2020 target

On 23 June 2015 the Australian Parliament agreed to amending legislation to implement the Government's reforms to the Renewable Energy Target. The new target is for large-scale generation of 33 000 gigawatt hours in 2020.<sup>2</sup> This will result in more than 23.5 per cent of Australia's electricity derived from renewable sources by 2020.<sup>3</sup> The required gigawatt hours of renewable source electricity from 2017 to 2019 were also adjusted to reflect the new target.

To help track investment in new renewable energy capacity, the Minister for the Environment, the Hon Greg Hunt, MP, requested that we prepare an annual statement on progress of the scheme towards meeting the new target and the impact it is having on household electricity bills.

## Overall finding

Our overall finding is that progress in 2015 was adequate under the circumstances and the Large-scale Renewable Energy Target in 2020 is achievable. There is no indication that the impact on household electricity bills in 2015 was more than anticipated when the target was amended. We estimate an additional 6 000 megawatts of installed capacity is required to meet the total cumulative demand for large-scale generation certificates through to 2020.

## 2015 results

Based on publicly available information, we estimate that 409 megawatts of new renewable power station build was committed in 2015.<sup>4</sup> In addition, renewable power stations with a combined capacity of 296 megawatts were accredited and commenced generation. These figures reflect the relatively short period of time since the new target was legislated and the observed slowdown in investment while the target remained under review. Based on industry and published sources, we estimate additional capacity of around 9 000 megawatts of large-scale renewables projects have development approval. If built, this is more than sufficient to meet the 2020 target.

The spot market for large-scale generation certificates is sending a strong price signal that new projects are required. At the end of 2015 the large-scale generation certificate spot price was just over \$72. This is a significant increase compared with \$33 at the beginning of 2015. The average large-scale generation certificate spot price over the 52 weeks of 2015 was \$54. The spot price remained well below the post-tax equivalent shortfall charge of \$93 (per certificate).<sup>5</sup>

The deadline for acquitting Large-scale Renewable Energy Target liability for the 2015 calendar year was 15 February 2016. Following this deadline, a surplus of approximately 18 million large-scale generation certificates were held in Renewable Energy Certificate Registry (REC Registry) accounts.

Overall compliance with large-scale liability for 2015 remained high with 99.4 per cent of large-scale generation certificates surrendered on time.

However, seven liable entities had a shortfall of 10 per cent or more of their total large-scale generation certificate liability for the 2015 assessment year. These liable entities were required to pay a shortfall charge. They can surrender certificates to acquit their 2015 shortfall within three years and come back into compliance with their obligations. We publish on our website the name of each liable entity that has a large-scale generation shortfall, and the amount of such shortfall, under section 134 of the Renewable Energy (Electricity) Act 2000.

The Australian Energy Market Commission (AEMC) estimates<sup>6</sup> that at a national level in the retail market, the compliance costs of the Large-scale Renewable Energy Target account for 1.9 per cent of electricity prices or an average of \$7.13 per quarter on a household electricity bill. The overall impact on electricity prices may be less as the Large-scale Renewable Energy Target can also lower wholesale electricity prices.<sup>7</sup>

To view progress indicators, data, and analysis, see chapter 6 of the 2015 Renewable Energy Target Administrative report on the Clean Energy Regulator website

## Looking forward

The total capacity of committed new build in 2016 will need to be around 3 000 megawatts for satisfactory progress towards the 2020 target.<sup>8</sup>

Financing is the key determinant of the pace of future construction. Evidence from the market indicates that procurement processes are underway for additional supply of large-scale generation certificates and renewable electricity. For instance, in recent months major electricity corporations and state-owned entities have announced tenders for renewable energy projects (see Progress indicators page). We will report the extent of committed new projects in future annual statements.

The surplus of large-scale generation certificates provides a buffer for liable entities to avoid incurring shortfall charges in 2016 and 2017, as it allows time for new renewable projects to be committed, constructed and start generating power and supplying new large-scale generation certificates.

Over the coming years this surplus will diminish. As large-scale generation certificate holdings are concentrated in relatively few hands, there may not be sufficient liquidity in the market for liable entities to rely on the spot market to meet their future obligations. To continue to comply with their obligations, it would be prudent for all liable entities to take steps to secure sufficient large-scale generation certificates to surrender in future years. Paying the renewable energy shortfall charge, rather than surrendering certificates, is non-compliance with the Large-scale Renewable Energy Target.<sup>9</sup> We are engaging with liable entities to manage compliance obligations.

**"PROGRESS IN 2015 WAS ADEQUATE UNDER  
THE CIRCUMSTANCES AND THE  
LARGE-SCALE RENEWABLE ENERGY TARGET  
IN 2020 IS ACHIEVABLE."**

## Footnotes

2 Note that more than 33 000 gigawatt hours of generation will be required in 2020 to meet the legislated target to accommodate additional demand for large-scale generation certificates from the ACT Government renewable electricity consumption target, voluntary initiatives such as GreenPower, permitting requirements, and the 850 gigawatt hours annual target for waste coal mine gas fired generation.

3 The Hon. Greg Hunt MP and the Hon. Ian Macfarlane MP, Media release: 'Certainty and growth for renewable energy', 23 June 2015.

4 Committed projects are large-scale renewable energy projects that have received all development approvals and a final investment decision within the normal commercial understanding of that term. Finance approvals are independently verified.

5 The cost of certificates surrendered against liability is tax deductible, however the shortfall charge of \$65 is not. For an entity paying full corporate tax the shortfall charge is equivalent to a cost of \$93 per large-scale generation certificate.

6 2015 Residential Electricity Price Trends, Australian Electricity Market Commission, 2015. As the Renewable Energy Target operates on a calendar year, the quoted figures average the 2014–15 and 2015–16 financial year estimates by the Australian Energy Market Commission.

7 The Large-scale Renewable Energy Target encourages a greater supply of generation which should place downward pressure on wholesale prices. Sources: Australian Energy Market Commission, 2015 Residential Electricity Price Trends, 2015 and Expert Panel, Renewable Energy Target Report of the Expert Panel Review, 2014.

8 A lower capacity committed in 2016 would not necessarily mean the target may not be met. The difference would need to be committed early in 2017 to ensure adequate liquidity to meet the annual statutory demand targets to 2020.

9 See Explanatory Memorandum to the Renewable Energy (Electricity) Bill 2000, and explanatory materials to its 2009 and 2010 amendments, and the Renewable Energy (Electricity) (Charge) Amendment Bill 2009 Explanatory Memorandum.