Submission Template
Discussion Paper – Enhancing the Renewable Energy Target

Overview
This submission template should be used to provide comments on:

*Australian Government Discussion Paper – Enhancing the Renewable Energy Target, March 2010*

The purpose of the discussion paper is to outline the Government’s policy on the new RET design and to seek stakeholder views on implementation aspects.

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Confidentiality
All submissions will be treated as public documents, unless the author of the submission clearly indicates the contrary by marking all or part of the submission as 'confidential'. Public submissions may be published in full on the Department of Climate Change and Energy Efficiency website, including any personal information of authors and/or other third parties contained in the submission. If any part of the submission should be treated as confidential then please provide two versions of the submission, one with the confidential information removed for publication.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

Do you want this submission to be treated as confidential? ☐Yes ☒No

Submission Instructions
Submissions should be made by **close of business 14 April 2010**. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address - RET@climatechange.gov.au.

Submissions may alternatively be sent to the postal address below to arrive by the due date.

Renewable Energy Target section
Department of Climate Change and Energy Efficiency
GPO Box 854
CANBERRA ACT 2601
SRES Implementation Options

Establishing a clearing house mechanism

Would liable entities and SREC suppliers want the flexibility of trading outside the clearing house?

Westpac supports an approach which provides flexibility and choice for trading outside of the clearing house. Within Australia, a liquid market for REC trading already exists which supports over-the-counter (OTC) trading, and allows liable entities to both manage their own exposure and adapt contractual arrangements to incorporate the requirements of SREC generators.

While Westpac notes that the development of a secondary market in SRECs is unlikely given the fixed price, limiting trading activity to the Clearing House would unnecessarily inhibit the options available to liable entities to appropriately manage their position on an ongoing basis. For example, some liable entities will be both liable entities and generators of SRECs where they offer household installation of eligible systems in return for SREC entitlements. If the SRECs created and applied for managing the liable entities net position exceed allocated compliance requirements, the liable entity may which to sell them on a bilateral basis to capitalise on their position. The availability of trading and market activity outside of the Clearing House would facilitate activity of this nature.

SRES Implementation Options

Providing certainty to liable entities – determining annual liability

The Government is seeking views on which of the options above or other options would provide adequate certainty for electricity retailers and other liable entities under the RET.

Westpac supports the institution of Option Two – the establishment of an annual target at the beginning of the year.

Westpac supports policy measures which provide greater regulatory certainty for investors and market participants as early as possible. This allows all market participants at every stage of the investment chain, to plan and manage forward business requirements in a more effective manner.

Option One would embed a greater deal of ongoing uncertainty over future projections of actual SRECs created, as final SREC figures would be highly dependent upon variable business and household demand and activity levels.

Westpac believes that Option Two more closely mirrors current arrangements under the RET scheme, thereby minimising market disruption and subsequent compliance costs for market participants to adjust to additional requirements.

Westpac also recommends that entities looking to purchase from the Clearing House be assessed to ensure that they are legitimate market participants aimed at facilitating the management of compliance obligations.
Similarly, robust governance and administrative systems and processes should be maintained to ensure that SRES projects are viable and legitimate enterprises aimed at generating genuine household level renewable energy opportunities, and not focused predominantly on capitalising on revenue opportunities from the creation and sale of SRECs.

**SRES Implementation Options**

- **Ensuring the timely purchase of RECs – annual or periodic surrender of RECs**
  - *Would periodic surrender give SREC holders timely purchase of their SRECs?*
  - *Would quarterly surrender allow liable entities to align their SREC surrender processes with existing business requirements and pricing of electricity?*

Westpac believes that it is important to ensure that market design features are considered in an aligned way when examining alternate implementation options.

Further, Westpac notes that the discussion paper has identified the goals of successful implementation of the SRES scheme to be twofold. Firstly, to increase cash flow to the generators of SRECs and secondly to ensure that liable entities are able to manage their compliance obligations in a timely and efficient manner. Ensuring alignment between market design features should address both concerns.

Providing upfront certainty around demand (by setting the SRES target at the beginning of the year) and allowing market participants to trade on a bilateral basis outside of (in addition to) the clearing house on a voluntary basis should address the concerns around cash flow management for SREC generators outlined in the discussion paper. This would also allow liable entities to acquit their RECs on an annual basis, minimising compliance and acquittal costs.

Therefore, Westpac supports setting the SRES target at the beginning of the year as the preferred option.

**Other Issues**

- **The treatment of existing forward contracts**
  - *Views are sought on the proposed approach for recognition of 'pre-existing contracts'.*
Westpac supports the decision to allow existing banked RECs to be used for LRET compliance obligations. By signalling the Government’s intent to separate small scale and large scale RECs, the impact of low REC prices caused by oversupply in the market has been addressed to a great extent, thereby alleviating the need to immediately remove or limit currently banked RECs from the market.

We would see any mandatory or sudden acceleration of redemption of banked RECs as placing an undue downward pressure in short term REC prices which would continue to discourage investment in large scale renewable energy projects.

Westpac supports proposed arrangements to manage transitional issues for pre-existing contracts.

Other Issues

**Assistance for emissions-intensive, trade-exposed (EITE) entities**

*The Government is interested in stakeholder views on the implications of the LRET and SRES on the partial exemption regulations for EITEs and the proposed approach.*

Westpac notes that provisions governing the determination of EITE assistance were agreed following extensive consultation and remain applicable.

Westpac would support a single partial exemption amount calculated for each EITE site and applied for both LRET and SRES to minimise administrative complexity.
Westpac supports the application of market-based policy mechanisms which encourage or incentivise the take up of clean energy solutions within Australia. Westpac has provided commentary on the discussion paper from the perspective of both a financier of small and large scale renewable energy projects or transactions and a financial market participant. Specifically, Westpac’s involvement in the renewable energy market includes:

- Financial relationships with energy retailers likely to have significant liabilities to acquit SRECs and RECs;
- Financial relationships with EITEs with residual liability to acquit SRECs and RECs;
- Financing for large scale renewable energy projects likely to benefit from the sale of RECs to liable entities;
- Small businesses involved in the installation of small generation and solar hot water units that will benefit from SRECs; and
- Portfolio trading in electricity, RECs, carbon and other commodities, carbon and energy markets.

In providing these comments, Westpac has generally applied an approach of supporting the removal or adjustment of those structural measures which are currently inhibiting the effective functioning of market mechanisms while seeking to preserve those market attributes which are well-established via the existing REC market, working efficiently and which do not necessitate substantial adjustment from existing market contractual or financial arrangements.

Finally, Westpac would also support greater disclosure around project registration for the SRES scheme, to enable improved analysis around the forecast and projected supply of SRECs, in order to better support LRET planning horizons, and in particular in determining the point at which large scale projects move from being marginal to viable once RET dynamics are factored in.