



October 2023

## Clean Energy Council submission in response to the Renewable Electricity Guarantee of Origin Approach Paper

The Clean Energy Council (CEC) welcomes the opportunity to respond to the Australian Government's Approach Paper on renewable electricity certification as part of the Guarantee of Origin Framework for Australia.

The CEC is the peak body for the clean energy industry in Australia. We represent and work with more than 1,000 businesses operating in Australia across solar, wind and hydro power, energy storage and renewable hydrogen. Our mission is to accelerate Australia's clean energy transition.

Decarbonisation commitments are gathering pace globally, and there is increasing demand for green and low-emissions products. The proposed Guarantee of Origin framework represents a landmark policy proposal, which will provide Australia with an essential mechanism to be able to demonstrate the environmental credentials of the products we produce, for both domestic and international consumption. This submission focuses on the design and implementation of a proposed Renewable Electricity Guarantee of Origin (REGO), which would be a subset of the overall guarantee of origin architecture.

The rationale for the new REGO certification scheme is two-fold:

- To enable sources of renewable electricity generation, which are currently ineligible to produce Large-scale Generation Certificates (LGCs) under the mandatory Large-scale Renewable Energy Target ('the RET') – specifically below-baseline generation and electricity intended for international exports – to demonstrate their product characteristics.
- To ultimately succeed Large-scale Generation Certificates when the RET sunsets.

The new certificate scheme is also viewed as an opportunity to modernise the nature of product information available on a renewable energy certificate, by providing more granular information about the time, place and source of production. The CEC considers these to be welcome proposals, noting the growing global interest from business and consumers for more detailed information and transparency relating to the environmental (and social) impacts of the products they purchase.

This year we have seen the European Commission introduce strict standards in relation to the definition of renewable hydrogen, both produced domestically and imported from overseas, which will cover the temporal correlation between hydrogen production and electricity generation, the geographic correlation between the hydrogen production facility and the renewable electricity generation plant, and the 'additionality' of the electricity source supplying the electrolyser.

The CEC notes that there are mixed views across the renewable energy sector in relation to the helpfulness of some of these requirements for a cost-effective and timely transition to clean energy. In particular, we note that a number of our members regard timestamping of certificates as being an unnecessary burden and distraction given that strong price signals are already provided by the wholesale electricity spot market for generation and consumption. In addition, given the expectations of a high share of renewables within the electricity market by the end of this decade, time *matching* is seen as a transitional issue, which will have diminishing importance as the transition progresses.

That said, it is clear that there is a growing international trend towards more granular information relating to electricity generation and consumption<sup>1</sup>, and the CEC agrees that Australia should equip itself to respond to these information needs from customer markets.

## 1. Potential market impacts of the introduction of the REGO in 2025

In its submission to the REGO consultation paper in February 2023, the CEC raised concerns relating to the potential unintended consequences for renewable electricity investment and wholesale electricity prices, if the Government were to proceed with the proposal in its proposed form without effective supporting policy measures.

Specifically, the CEC was concerned that the introduction of the REGO could result in:

1. **A substantial decrease in large-scale generation certificate prices, with 14TWh<sup>2</sup> of below-baseline renewable electricity generation becoming eligible to create renewable electricity certificates.**

While the CEC does not assume that all current buyers of LGCs would immediately switch from LGCs to REGOs<sup>3</sup> – given contractual commitments, differentiation applied by some buyers, and constraints under certain schemes (eg. GreenPower, Climate Active, RE100) – we nevertheless expect that there could be a dampening effect in prices for LGCs, which would negatively impact the investment case for new projects.

The argument has been made that voluntary demand will continue to grow, meaning that the market for certificates will increase over the coming years. However, this growth is unlikely to be rapid enough or large enough to soak up the additional 14 TWh of certificates that become available in 2025.

2. **Higher average wholesale electricity prices in the immediate term without other supporting policy measures**, given that LGC prices currently enable renewable electricity plant to continue to operate even at negative prices, until the point at which the negative price cancels out the positive LGC price. With lower LGC prices, the frequency and magnitude of these negative pricing events is likely to decrease, which will mean an increase in average wholesale electricity prices.
3. **Dampened price signals for large-scale energy storage investments**, with the reduction in the scale and frequency of low and negative prices within the wholesale electricity market reducing the ‘spread’ available to storage proponents.

## 2. Feedback on the Department’s proposed refinements

We appreciate that the Department of Energy, Environment, Climate Change and Water (‘the Department’) has listened to the concerns of renewable energy investors and put forward a range of proposed refinements which we believe will go *some way* toward addressing the issues raised. We respond to these proposals below.

- **Restricting use of below baselines REGO certificates to emissions-intensive trade-exposed (‘EITE’) activities, and product guarantee of origin certificate creation:** The CEC supports this proposal to limit the use of REGOs to, in essence, ‘new’ markets over the 2025-2030 period. We expect that this will assist to minimise the potential impacts on the LGC market

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<sup>1</sup> We also note the rise of initiatives such as [Energy Tag](#), which is working to ‘define and build a market for Granular Certificates that enables energy users to verify the source of their electricity and carbon emissions in real time’.

<sup>2</sup> We note that this figure, which is based on hydro energy generation fluctuates year to year, but is typically in the order of 13TWh – 16TWh per year

<sup>3</sup> The CEC expects that some purchasers will continue to prefer LGCs, which would see this category of certificate enjoy a price premium to some degree, compared to REGOs.

of a large number of new certificates becoming available during this already challenging period for renewable energy proponents.

We do note however that concerns persist among a number of our members that access by some emissions-intensive trade-exposed facilities ('EITEs') to Australian Government-accredited below baseline REGO certificates could enable cost-effective 'greenwashing', through the sale of below-baseline REGO certificates to some emissions-intensive trade exposed industries (eg. liquified natural gas facilities) which do not ultimately result in emissions reductions within the electricity market.

Other members have raised concerns regarding the potential for EITEs facilities, who may currently purchase LGCs in a voluntary capacity, to sell down these certificates and purchase below-baseline certificates in their place (which are expected to be significantly cheaper than LGCs), which could reduce demand for new renewables build.

These concerns should be carefully evaluated by the Government to ensure that the final policy design will in fact assist Australia to lower the carbon intensity of the electricity market and meet its national emissions reduction targets.

- **Bankability limits for below-baseline REGOs:** The CEC considers that the proposed 18-month limit on bankability will be helpful to safeguard against the risks of a large surplus of below-baseline certificates accruing over time.
- **Product differentiation between below and above baseline certificates:** The CEC supports clear brand differentiation between below and above baseline generation certificates within the REGO scheme until 31 December 2030, when the RET is currently due to sunset.

Notwithstanding these proposed modifications, we note that a number of our member companies remain opposed to below baseline generation being eligible to create certificates as part of the REGO scheme.

### 3. Supporting measures outside of the REGO

#### *i) An effective, long-term national policy mechanism to stimulate new large-scale investment*

As outlined in our February 2023 submission, the implementation of Australia's Guarantee of Origin frameworks should occur alongside the introduction of an effective long-term national policy mechanism to drive increased and sustained investment in large-scale renewable energy projects, such as an increase and extension of the Renewable Energy Target.

Australia's RET of 33,000 GWh per annum has now been comfortably achieved, and demand for new large-scale generation certificates is now being largely supported by voluntary demand from the private sector. As indicated in the Approach Paper, voluntary demand is expected to grow over the coming years. However, the rate of such growth is less certain than demand incited by a mandatory obligation.

This national policy vacuum is having an impact on investment today. Assuming that it requires in the order of two years to construct a wind farm and typically 12–18 months for large-scale solar, projects committed in 2023/24 will not begin generating until 2025/26, meaning that the support now being provided by the RET is minimal. The year 2030 now represents the 'near term', and a clear long-term policy framework is urgently required to pull through investment in these long-life major infrastructure assets that will underpin the decarbonisation of our electricity systems and economy more broadly.

While State Government schemes such as reverse auctions have been helpful, these support mechanisms are typically (with the exception of NSW) more modest in scope and less predictable for investors in providing support for their projects. (For example, New South Wales is the only state to have released a long-term forward schedule of tenders.) They are, therefore, less efficient at incentivising the broad-based investment that a simpler market- or economy-wide mechanism would stimulate, such as a carbon price or certificate surrender obligation on retailers.

There are a number of policy options that could be considered by the Australian Government to catalyse new investment. However, given the efficacy and efficiency of the Renewable Energy Target, which drove unprecedented investments in Australia's electricity grids between 2017 and 2020, the CEC considers that the simplest policy intervention would be to extend the existing RET architecture and increase its level of ambition.

Employing a mechanism which is well-understood by the market would help to minimise investor uncertainty about untested policies, which could in turn have a further chilling effect on investment.

An increased, legislated target would accelerate large-scale generation investment and deployment in the following ways:

1. Motivating offtake and new power purchase agreements to be struck.
2. Reducing complexity for investors in navigating multiple state incentive schemes.
3. Providing greater investor certainty about the volumes and timing of renewable energy generation required, reducing investor risk and therefore the cost of finance for building capital intensive, long-life renewable energy assets.
4. Providing clear signals to supply chains about the volumes and timeframes for the necessary equipment, and enable Australian projects to secure more favourable pricing.

By reducing the cost of capital and the cost of equipment, which are the two largest expenses of renewable energy projects, we expect that the scheme would materially assist Australia to lower the cost of electricity to consumers, and of the energy transition more broadly.

It would also assist Australia to begin a meaningful conversation with original equipment manufacturers (OEMs) about locating some new local manufacturing facilities for the renewable energy supply chain within Australia. The lack of a mandated renewable energy target beyond 2030 makes it more difficult to attract interest in building onshore facilities.

The proposal for a RET increase and extension has strong support across the sector. In our recent survey of industry leaders, the majority indicated that an extension of the RET would increase their confidence to invest.

#### *ii) Introduction of mandatory market-based reporting for Scope 2 emissions under NGER*

The Approach Paper indicates that the Department expects new voluntary demand for certificates to arise from a potential requirement for National Greenhouse and Energy Reporting scheme ('NGER') facilities to adopt market-based reporting for scope 2 emissions (those emissions associated with the indirect consumption of energy). This change has been proposed by Treasury as part of its Climate-related Financial Disclosures consultation.

Such a move would be consistent with the international Greenhouse Gas Protocol, and would oblige all NGER facilities to report emissions associated with their power purchase agreements. This would also be helpful in creating further demand for renewable electricity certificates.

The CEC would like to see the Australian Government prioritise the implementation of this reform in 2024, as part of providing a stronger incentive for large-emitters to take responsibility for any off-site emissions associated with their electricity consumption, and drive demand for new renewable energy investment. If Australia's heavy emitters are allowed to continue to simply report their scope 2 emissions based on location only, then businesses could potentially misrepresent their falling emissions as 'reductions'.

#### *iii) Support a public awareness campaign for GreenPower*

Another important initiative that the Australian Government should deliver as part of any introduction of the REGO scheme prior to the conclusion of the RET, is to provide substantial funding support for a major, national public education and marketing campaign for GreenPower – the government backed certification scheme for voluntary purchases of additional renewable electricity generation.

Years of underinvestment in this scheme mean that many consumers are unaware of what the GreenPower accreditation scheme signifies, and as such it is difficult for them to differentiate between different renewable energy products. Investing in a consumer education campaign will help to support demand for GreenPower, and accordingly, new renewable electricity projects.

#### **4. Small-scale generation**

The CEC supports the principle that all recognised<sup>4</sup> forms of renewable energy generation should be eligible to create REGOs. This includes small scale systems (ie. rooftop solar), which would be eligible to create REGOs where that generation has not already created STCs, or where the deeming period for the solar system had concluded.

We note however that there is some complexity in how this system would work in practice, including the treatment (and communication) of environmental claims associated with self-consumption where households/businesses/aggregators sell the REGOs associated with their systems to other energy consumers.

The potential outcomes of using a single scheme to support both small-scale and large-scale generation also warrants careful analysis. We note that the Small-scale Renewable Energy Scheme ('the SRES') was created specifically to avoid the uptake of rooftop solar suppressing investment in the large-scale sector. Since its creation, the SRES has been highly successful, in part due to the simplicity of the upfront deeming model, which has made it easy for households and small business to access.

Overall, detailed analysis is required of the practical implementation considerations of the REGO scheme for the rooftop solar segment and we would urge the Department to undertake further consultation with industry over the coming weeks and months.

#### **5. Conclusion**

The CEC supports the vision and intent of the Guarantee of Origin framework and the provision for all forms of renewable electricity to be able to demonstrate their characteristics in a transparent way.

We welcome the refinements that the Department has put forward within its Approach Paper, though we note that a number of members remain concerned regarding the potential for greenwashing from the use of below-baseline certificates. These concerns should be carefully considered by the Government, in the interests of ensuring that the final policy design achieves the intended outcomes of accelerating emissions reductions.

Complementary measures and design considerations will be required in order to reduce the risks to new investment in the coming years. Foremost among these measures is the introduction of an effective long-term, national policy mechanism to drive new investment, amidst falling deployment rates. Implementing the REGO in the absence of such a scheme could set investment back further and make Australia's task of 82 per cent renewables by 2030 far more difficult to achieve.

We would welcome the opportunity to work with the Department to further discuss and refine the policy design to support the successful introduction of Australia's Guarantee of Origin framework.

Yours sincerely,



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<sup>4</sup> As per the *Renewable Energy (Electricity) Act 2000*