



**Minister for Climate Change and Energy Efficiency  
Minister for Industry and Innovation**

Mr Bernie Fraser  
Chair  
Climate Change Authority  
GPO Box 1944  
MELBOURNE VIC 3011

Dear Mr Fraser

I write to you concerning the Climate Change Authority's statutory review of the Renewable Energy Target (RET) scheme.

I first of all would like to take the opportunity to once again thank you for agreeing to lead the Authority and note the very important role it has to play in advising the Government on the operation of the key components of the Clean Energy Future plan. I intend writing to you again in the near future to set out the Government's expectations generally in relation to the role the Authority, its relationships with the Government and Department of Climate Change and Energy Efficiency, and issues of corporate governance, communication and financial management.

As you are aware, the Authority's first significant task is to review and report on the operation of the RET scheme (the Review) before the end of 31 December 2012. The parameters of the Review, including its scope, consultation requirements and timelines, are set out in Section 162 of the *Renewable Energy (Electricity) Act 2000*. This includes the requirement that the Climate Change Authority's recommendations cannot be inconsistent with the objects of the Act.

The Government recognises that renewable energy will play a crucial role in a clean energy future. As such, promoting innovation and investment in harnessing our abundant renewable energy resources is a key element of the Clean Energy Future plan.

The RET scheme, as an integral part of the Government's plan, is designed to deliver the Government's commitment that the equivalent of at least 20 per cent of Australia's electricity supply will come from renewable sources by 2020. Renewable energy investors have been assured by the Government of our ongoing commitment to this target, to provide confidence for their investment decision making.

The RET scheme will work alongside the carbon price, the Australian Renewable Energy Agency and the \$10 billion Clean Energy Finance Corporation (CEFC) recently established through legislation, to speed up the deployment of renewable energy technologies, helping smooth Australia's transition to a clean energy future. These policies and institutions are intended to be mutually supportive and work together to enhance clean energy outcomes for all Australians.

In the long term, transformation of our electricity supply to renewable and low emissions sources is essential to cutting our national emissions and remaining competitive in a carbon constrained world. The carbon price will drive investment in clean energy sources such as

solar and wind. However in the near term, the RET is intended to complement the carbon price by accelerating the deployment of market-ready renewable technologies at least cost through a technology-neutral, market based scheme. It will also help diversify our energy mix which is currently highly reliant on emissions-intensive coal-fired generation.

Under the RET scheme, and its smaller precursor which commenced in 2001, over 300 power stations have been accredited, increasing renewables-based generation by around 5 times, albeit off a small base. In terms of small-scale renewable energy systems, over 600,000 rooftop solar photovoltaic (PV) installations and 700,000 solar and heat pump water heaters have also received support since 2001.

The Government has recently made policy changes to the RET to improve its operation. In mid-2010, the RET was separated into two components - the Large-scale Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES) - to provide greater certainty for large-scale renewable energy project investors, households and installers of small-scale renewable energy systems. The Solar Credits mechanism under the SRES boosts upfront support for eligible solar PV systems by multiplying the number of tradable certificates able to be created. The multiplier reduces over time, reflecting declining costs of small-scale solar PV.

In response to unsustainable growth in small-scale solar, driven by declining system costs, the strong Australian dollar and economy, and incentives such as state and territory feed-in tariff schemes, the Government has brought forward the phase-out of Solar Credits by two years to mid-2013. These changes were aimed at maintaining a balance between supporting households with the upfront cost of installing solar panels, the impact on electricity prices, and the sustainable development of the industry.

In light of the above, the Government is continuing to monitor the efficiency of the SRES and the clearing house which operates to cap the price of certificates in the small-scale market. In addition, the Government considers that it is important the requirements relating to the creation of small-scale technology certificates ensure that only systems of appropriate quality are supported with regard to compliance with State and Territory legislation, relevant Australian standards and industry practice. This framework also needs to take into account the responsibility of State and Territory Governments and industry accreditation schemes have for electrical safety and quality matters.

The Government is also interested in how the RET, as a market-based scheme, is performing in terms of encouraging generation of electricity from a range of renewable sources and how it is influencing the long-term development of the industry to assist the transition to a low emissions economy at least cost. The Government is conscious that the RET needs to provide investment certainty and predictability for investors long lived assets. It also needs to deliver renewable energy outcomes at least cost to electricity consumers. In this context, I note that some renewable energy industry stakeholders have expressed the view that the statutory requirement for the Authority to review the RET scheme every two years is inappropriate and contributing to uncertainty for investors.

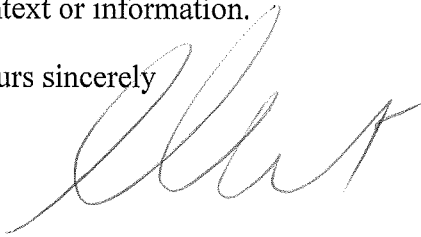
Regarding the Government's broader activities in this area, you will be aware that COAG has prioritised a review of Government climate change programs to look at whether they are complementary to a carbon price and are effective, efficient and do not impose duplicative reporting requirements. The Select Council on Climate Change (SCCC), which I chair, has developed an approach to this review and is due to report to COAG by

8 February 2013. My Department will draw on the findings of the CCA RET Review to assist with completing the COAG Review of complementary measures.

At a meeting on 4 May 2012, the SCCC also agreed that the report of the recently completed *COAG Review of Specific RET issues* be conveyed to the CCA to inform its considerations. COAG commissioned this review in April 2008 in agreeing the design of the RET scheme. As Chair of the SCCC, I attach a copy of the report in accordance with the SCCC agreement.

In closing, I look forward to receiving the Authority's report of the Review and would encourage the Authority to contact the Department of Climate Change and Energy Efficiency and the Clean Energy Regulator as appropriate should you require any further context or information.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Greg Combet', written over the 'Yours sincerely' text.

GREG COMBET