

Queensland Competition Authority

FACT SHEET

2018–19 Regulated Regional Electricity Prices — the role of Renewable Energy Target (RET) Costs

What is the Renewable Energy Target?

The Renewable Energy Target (RET) is an Australian Government scheme designed to provide incentives for the electricity sector to increase generation from renewable sources, and reduce greenhouse gas emissions.

The RET is comprised of:

- the Large-scale Renewable Energy Target (LRET), which encourages investment in renewable power plants
- the Small-scale Renewable Energy Scheme (SRES), which supports installations of rooftop solar and solar hot water systems.

Why are there costs associated with the RET?

Under the LRET, renewable power plants create Large-scale Generation Certificates (LGCs). Smaller renewable systems such as rooftop solar create Small-scale Technology Certificates (STCs) under the SRES.

Retailers are required to purchase these certificates and surrender them to the Commonwealth's Clean Energy Regulator (CER) to meet their obligations under the RET. The costs are then passed on to customers in the form of higher electricity prices.

Why have RET costs increased since 2017–18?

Increased RET costs reflect increases in costs for the LRET, SRES and SRES cost pass-through.

LRET

To determine the number of certificates that retailers and other liable entities are required to surrender, the CER sets the renewable power percentage (RPP). In order to meet higher annual renewable energy targets, the RPP and the number of certificates retailers are required to surrender has increased. This has led to higher LRET costs in 2018–19.

SRES

Under the SRES, all created STCs are purchased. To ensure this occurs, the CER calculates a percentage—known as the small-scale technology percentage (STP)—that dictates the amount of certificates liable entities must purchase.

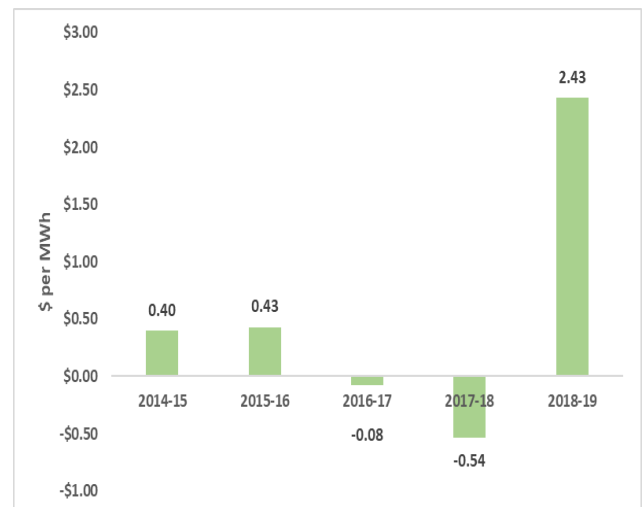
The final STP for 2018 and the estimated STP for 2019 are significantly higher than the percentages used to calculate the SRES cost in 2017–18. This has caused the SRES cost to increase by 94%—from \$3.01/MWh in the 2017–18 final determination to \$5.84/MWh in the 2018–19 final determination.

SRES cost pass-through

The calculation of the SRES cost always uses an estimated figure for the year ahead STP. This occurs because the CER does not finalise the STP until March in the calendar year that it will apply. This means that, depending on how the estimated STP compares to the final STP, retailers may have under or over-recovered their SRES costs.

The 2017–18 SRES cost calculation used an estimated STP for 2018 of 8.06%. Because the final STP for 2018 was actually 17.08%, retailers would have had to purchase a far greater number of certificates than accounted for in our 2017–18 SRES cost calculation. This under-recovery that occurred in 2017–18 has been corrected by applying an SRES cost pass-through. As the size of the under-recovery was very large, the SRES cost pass-through applied in the 2018–19 final determination is far greater than in any previous determination.

Historical SRES cost pass-throughs: residential customers



Where can I find out more?

Our website gives more information—
www.qca.org.au