



16 May 2014

Expert Panel
Review of the Renewable Energy Target
(Submitted online)

Dear Sir/Madam,

Review of the Renewable Energy Target

The Australian Financial Markets Association (AFMA) welcomes the opportunity to make this submission to the Expert Panel Call for Submissions of the Review of the Renewable Energy Target (RET).

AFMA's work in relation to the Renewable Energy Target (RET) Scheme includes the development of spot and forward trading of Renewable Energy Certificates including the creation of standard documentation, providing market data services, dealer accreditation, training and other services to facilitate the efficient operation and development of these markets.

AFMA's interest in the RET Review is limited to ensuring that the market design itself remains sound and offers a secure foundation for the efficient trading of Certificates for as long as the scheme operates. AFMA does not hold positions on whether the scheme should exist or not, what targets should be set, and many of the scheme's particular design features where they do not impact on the quality of the market.

Our interest is only that any proposed change to the Renewable Energy Target should be designed with an appropriate transitional period and bear in mind the objective of promoting a sound market that maintains the confidence of market participants. Changes if required should also be made so as not to damage market participants or produce unfair or unintended consequences.

Appropriate transitional period

In the event of changes to regulation, it is generally appropriate to allow time for a full exploration of issues, and ensure that a sufficient transitional period is allowed before any changes are implemented. This is important to ensure that there are no unintended

consequences for market participants, and that financial markets associated with the Renewable Target continue to operate efficiently.

The Government's intention to repeal the carbon tax after 1 July in a retrospective fashion is an example of where the application of legislation has had obvious unintended consequences for market participants. The decision to potentially retrospectively repeal legislation has had significant negative consequences for trading in electricity swaps which are a forward hedging mechanism for electricity generators and retailers. In particular, the considerable uncertainty associated with this decision has resulted in significantly diminished turnover for contracts post June 2014. This in turn has impaired the capability of market participants to efficiently manage financial risks in their businesses, and has also created increased potential for higher electricity prices for consumers for a time, despite the intent of the carbon tax repeal. It would be extremely unfortunate if a similar situation occurred in the event of changes to the Renewable Energy Target scheme legislation.

No Disadvantage for Scheme Participants

Similarly, changes in regulation should also have an objective of ensuring that there are no unfair or unintended financial consequences to market participants, causing financial disadvantage to parties currently regulated under the RET scheme who have made reasonable preparations for its continuance. It is important for market confidence and perceptions of regulatory risk across all Australian markets that changes to the RET scheme should recognise the transfers of value that have already taken place.

Conclusion

For the Government to achieve its stated aims of stable, predictable government it is critical that any proposed changes associated with the RET scheme are done in a structured, transparent and consultative way that leverages the understanding of industry to drive sound policy outcomes.

We recommend that the Government ensures that there is an appropriate amount of time between any proposed changes in legislation and its application to ensure affected businesses and the markets in which they operate are not significantly disrupted.

Thank you for considering our comments in relation to this submission. Should you require further clarification on any matters raised here please contact me on (02) 9776 7941 or at mchadwick@afma.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "M. Chadwick". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mike Chadwick
Director - Markets