



**Auditing Process Reform:
Consultation Paper**

March 2008

Background

GreenPower Rights (GPRs) have served to separate 'new' (post 1997) and 'existing' (pre 1997) GreenPower generation since the inception of the GreenPower Program. However, after 31 December 2008, 'existing' GPRs will be removed from the Program altogether. This was decided as part of the 2005 GreenPower review.

From 1 January 2009 GPRs will only serve as a means of tracking GreenPower accredited generation from Generators not registered with the Office of the Renewable Energy Regulator (ORER) to create Renewable Energy Certificates (RECs).

This generation was allowed in the Program due to differences in accreditation rules between GreenPower and ORER when there was a more limited supply of renewable generation. In 2008 it is likely to represent less than one per cent of GreenPower generation.

The National GreenPower Steering Group (NGPSG) believes that the renewable energy industry is now at a stage of maturity where there is sufficient supply of RECs to meet the demand of both mandatory requirements and GreenPower.

It is the position of the NGPSG that every megawatt hour (MWh) of GreenPower sold shall require the surrender of one REC; allowing the auditing requirements of the Program to be met using RECs alone.

In order to achieve this outcome, the NGPSG is proposing to phase out GPRs over the next three calendar years. This process is explained in the transitional arrangements section of this paper.

Industry Consultation

In 2007 the NGPSG requested feedback from GreenPower accredited Generators and Providers on the proposed phase out of GPRs.

The NGPSG has considered the responses received and has prepared this Paper to outline the results of the consultation process and to seek further comment on the proposed future arrangements.

Summary of Responses: Generator Consultation – September 2007

The GreenPower Generator consultation paper contained 10 questions relating to GPRs.

Below are the questions from the survey and a brief summary of the responses received.

1. Should the NGPSG phase out GreenPower Rights (GPRs) and focus solely on RECs?

- The majority of respondents answered yes to this question;
- The most common feedback was that adequate time should be given for industry to adjust due to forward contracts;
- The timing for this is considered in question six below; and
- Those that answered no to this question indicated that phasing out GPRs may impact on revenue.

2. Would the phasing out of GPRs have a significant impact on revenue for your company?

- This question received an equal amount of yes and no answers;
- Those respondents that answered yes indicated that phasing out GPRs would have a negative impact on future revenue; and
- Those that answered no indicated that the value of GPRs is not significant to revenue.

3. Would the phasing out of GPRs impact on any future projects?

- The majority of respondents answered no or not sure to this question and indicated that future projects rely on RECs for funding and not GPRs; and
- The two respondents that answered yes indicated that GPRs are important for future projects that are not eligible for RECs.

4. Have GPRs been accounted for in power purchase agreements (PPAs) signed by your company extending beyond 2008?

- The majority of respondents answered yes to this question and indicated that a number of PPAs included GPRs; and
- Those that answered no indicated that PPAs were under review and may include GPRs in the future

5. When will the last of these PPAs expire?

- Responses indicated that there is a wide variety of expiry dates for PPAs ranging from the end of 2007 through to 2017; and
- The implication of this is that a transitional arrangement must be considered in phasing out GPRs.

6. What time frame would you consider appropriate if GPRs were to be phased out and why?

- The majority of respondents to this question indicated that the time frame of between 2008 and 2011 is reasonable;
- This time frame allows industry to adjust for contracts while a more efficient auditing process can be implemented; and
- One response to this question indicated a time frame beyond 2017 was appropriate and another indicated never.

7. Can the reporting requirement for GPRs be removed while financial contracts are still honoured through to termination?

- The majority of respondents answered yes to this question, provided that efficient auditing procedures were put in place; and
- Those that answered no or not sure indicated that it may not be possible to trade GPRs without GreenPower reporting requirements.

8. Do you foresee a negative impact on the REC market should GPRs be phased out?

- The majority of respondents answered no to this question without further comment; and
- Those that answered yes indicated that the phasing out of GPRs could lead to a two-tiered REC market with a price difference for GreenPower accredited RECs, leading to upward pressure on GreenPower prices.

9. What issues may arise if RECs are required to be sold in the settlement period (calendar year) in which they are generated (this would mean that RECs are not bankable for the purposes of GreenPower)?

- The main response to this question was that RECs should not be tied to year of generation for the purposes of GreenPower auditing; and
- Concerns were raised that this measure could lead to increased REC prices and higher GreenPower prices.

10. Other comments?

- No further issues were raised.

Summary of Responses: Provider Consultation – August to September 2007

GreenPower Providers were invited to attend a workshop in August 2007. The issue of phasing out GPRs was one of five topics discussed at this workshop. Subsequent feedback on all topics was received from nine Providers and, of these, five responded to the topic of phasing out GPRs.

Below is a summary of the key points from this feedback.

Consideration of forward contracts

- There are many power purchase agreements and forward contracts in place that consider GPRs;
- Transitional arrangements need to account for these power purchase agreements and forward contracts; and
- Consideration needs to be given to generators using GPRs as a revenue stream.

The auditing process

- The comments received from respondents were that GPRs are inefficient and this makes the GreenPower audit the most time consuming of all green energy programs; and
- Removing GPRs will reduce costs due to a simplified auditing process.

Sole reliance on RECs

- Respondents were of the opinion that removing GPRs will increase the flexibility of the GreenPower Program because RECs are bankable whereas GPRs are required to come from the same year in which they were generated; and
- Removing GPRs will help to reduce consumer confusion over what GreenPower actually is as it will be solely reliant on RECs.

Timing

- Respondents commented that the phase out of GPRs should not take place immediately, but should give industry enough time to transition to a new system.

Outcome of Consultations

After consideration of the responses from both the Generator and Provider consultations, the NGPSG considers that there is adequate support from stakeholders to phase out GPRs.

The NGPSG has developed transitional arrangements over the next three calendar years to a point in 2011 where GPRs no longer exist and every MWh of GreenPower sold will require the surrender of one REC. This timing is in line with the transitional period for the phasing out of 'existing' GPRs.

Transitional Arrangements

1 January 2009 – Stage one:

- 'Existing' GPRs are no longer accepted in the Program (as per existing transitional arrangements);
- 'New' GPRs are no longer required for customers signed-up from 1 January 2009, all sales to customers signed-up from 1 January 2009 will require one REC for each MWh sold; and
- 'New' GPRs and RECs still required for customers signed-up before 1 January 2009.

1 January 2011 – Stage two:

- 'New' GPRs are no longer accepted in the Program;
- Every MWh of GreenPower sold will require the surrender of one REC; and
- The audit will focus solely on RECs.

The NGPSG developed this approach after consideration of the feedback received from Generators and Providers. The NGPSG recognises that forward contracts exist that consider GPRs and believes that the proposed transitional period address the concerns of respondents by allowing adequate time for industry to adjust while also meeting the future needs of the Program.

Conclusion

The removal of GPRs will have several advantages for the Program overall. These include:

- The streamlining of the annual audit process through less administrative duplication with ORER (from 2011 Generators will not be required to submit audit returns for GreenPower, and Providers will not have to report on REC purchases as all the information required for auditing will be available on the REC-Registry. Providers will only report on customer sales, the auditor will then be able to match sales to RECs surrendered in the REC-Registry);
- A more cost-effective approach to the annual audit for Generators and Providers;
- A more standardised approach to the accreditation of Generators; (Generators will need to have ORER accreditation in order to receive or retain GreenPower accreditation, otherwise GreenPower accreditation criteria for Generators remains unchanged);
- The more timely release of the annual audit; and
- Increased consumer confidence and stakeholder confidence in the GreenPower brand.

The NGPSG would like to thank all GreenPower Generators and Providers for their input into this process. The NGPSG are now seeking final comments on the phasing out of GPRs as outlined in the transitional arrangements above.

Please send your response to Gary Eisner by close of business 2 April 2008 via the contact details below.

A summary of feedback received may be published on the GreenPower website. Please indicate if you wish for your feedback to be kept confidential.

Yours sincerely,

The National GreenPower Steering Group

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