

24 October 2023

Guarantee of Origin and Trade Section  
Department of Climate Change, Energy, the Environment and Water  
GPO Box 3090  
Canberra ACT 2601



Submitted via email

Dear Guarantee of Origin and Trade Section,

### **Guarantee of Origin Scheme Design paper and Renewable Electricity Approach paper**

The Australian Financial Markets Association (**AFMA**) is responding to the Department of Climate Change, Energy, the Environment and Water (**DCCEEW**) consultation papers on Australia's Guarantee of Origin Scheme Design paper (**the design paper**) and Renewable Electricity Guarantee of Origin Approach (**REGO**) paper (**the REGO paper**).

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 125 of Australia's leading financial market participants, including many of the key participants in Australia's energy and environmental product markets. AFMA's submission is therefore limited to issues viewed as in scope, relating to market function, efficiency, and integrity.

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#### **Key points**

- AFMA supports introducing a credible national guarantee of origin scheme.
- The interaction of the REGO and RET schemes needs to be managed to minimise disruption to the LGC market.
- Creating a register with quality information and appropriate functionality will be key to the schemes' success.

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AFMA affirms that an accreditation scheme will be important for the net-zero transition and therefore supports the introduction of these schemes. However, we think it is important to point out, that electricity is in a unique position in that the Renewable Energy Target (RET) currently performs a similar role to the REGO scheme. AFMA considers that it is important to appropriately manage the transition from the RET to REGO to ensure it occurs smoothly and our submission therefore focuses on ensuring the market for both products functions as well as possible. AFMA also believes however, that it is important to highlight that the REGO scheme will play a different role to the Renewable Energy Target (RET), in that the RET was explicitly designed to support investment in renewable generation while REGO only seeks to accredit it. AFMA is concerned that the introduction of the REGO scheme has the potential to be disruptive to the Large-scale Generation Certificate (LGC) market and considers that policy should be designed to minimise any disruption.

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## 1. Interaction with the RET

The RET, since its inception in 2001, has been highly successful in stimulating investment in renewable energy assets and increasing the overall share of renewable energy generation. While originally designed to support investment in renewable generation, LGCs have evolved into a key product to support voluntary emissions reductions for electricity users. As a result, LGCs are currently performing much of the function intended for REGOs and AFMA considers that it will be important to manage the implementation of the REGO scheme to minimise disruption to the LGC market.

Voluntary demand for LGCs is now a key contributor to the value of LGCs. In its Q1 2023 update, the Clean Energy Regulator<sup>1</sup> (CER) highlighted: “voluntary cancellations reached a new Q1 record of 1.2 million LGCs and we expect a new record for non-Renewable Energy Target (RET) demand will be set this year.” In 2021, voluntary cancellations already exceeded the CER’s<sup>2</sup> expectations to which they stated: “this is further evidence the market is using LGCs as a carbon unit to prove use of renewable energy and reduce net scope 2 electricity emissions.” The CER also observed that: “near-term (2023 - 2025) forward prices have also seen increases suggesting the market is still pricing in the future scarcity of certificates.” The CER’s observations are consistent with AFMA’s understanding that LGCs are currently performing a similar role to what is anticipated for REGO certificates. We anticipate REGO certificates will be considered a substitute for voluntary purchases of LGCs and are concerned that this has the potential to disrupt the LGC market and encourage DCCEEW to attempt to minimise this disruption.

As the REGO paper notes: “REGO retains the basic design strength of the Large-scale generation certificate (LGC) – a tradable certificate – but introduces features that make it a more fit-for-purpose market-based instrument now and in future.”<sup>3</sup> To provide certainty to the market, AFMA believes that implementation of REGO should be coordinated with policy announcements about the future of the RET, post 2030. Providing this much needed clarity and thorough planning in relation to the end of the RET would provide positive market signals.

### AFMA Recommendations

- i. Implementation of REGO should:
  - a. Be designed to minimise disruption to the LGC market
  - b. Provide adequate notice to the market
  - c. Be coordinated with policy announcements about the future of the RET post 2030

## 2. Tradability

### 2.1 Time stamping

#### 2.1.1 Challenges

AFMA has reservations about introducing time stamping for REGO certificates as we are concerned that it will greatly increase complexity and reduce liquidity. We understand that including the

<sup>1</sup> [Clean Energy Regulator: '2. Large-scale generation certificates \(LGCs\)](#)

<sup>2</sup> [Clean Energy Regulator: '2.1 LGC Supply and demand balance](#)

<sup>3</sup> [DCCEEW: Renewable Electricity Guarantee of Origin](#)

capacity for timestamping is motivated by the demand of some exporters who may require it to comply with foreign regulatory requirements. We support including timestamping in the product specification to meet these users' needs but do not support a mandate requiring Australian energy users to match REGO certificates to their energy usage profiles.

Electricity is an unusual product in that it is generally not possible to physically trace it from production to use. As a result, schemes such as the RET and REGO are required to allow parties to account for the purchase of renewable generation. While these schemes play an important role, it is worth bearing in mind that the allocation of renewable energy to a given user is a fiction as it will generally not be possible to trace the source of the energy they have actually used. In reality, certificate schemes achieve their objectives by boosting the overall supply of renewable energy leading to an overall reduction in the carbon intensity of the grid rather than by providing renewable electricity to an individual user. We think this is the better approach to encourage emissions reductions in Australia.

AFMA considers that introducing time stamping for REGO certificates will introduce considerable complexity to the scheme, and mandating that buyers align their REGO certificates to their energy usage will undermine liquidity without delivering a corresponding benefit. Noting that the Government cannot control how schemes such as the RE100 or other will require time matching, AFMA would therefore propose optionality rather than a mandate on time matching.

Timestamping in the REGO scheme appears to be designed to more closely link production and consumption of energy. While we appreciate the benefits of ensuring the REGO scheme has the functionality to support exporters requirements, we are concerned that mandating that energy users' REGO certificates mirror their physical usage will undermine the effectiveness of the scheme.

We anticipate that mandating extremely precise alignment of REGO certificates to energy usage will also be unattractive to users looking to purchase 100% renewable energy as the market may be illiquid, and they may struggle to get price certainty. Under a mandatory approach, the user, or their retailer, would have to calculate their usage with extreme precision for all intervals on all days. This calculation is unlikely to be able to be done in advance, meaning that users would have to buy at least some of the certificates after they had used the energy. We anticipate that this may be difficult or impossible for at least some intervals, where renewable generation is less than the demand for renewable certificates. During these periods we would expect low liquidity and volatile prices which we consider would be undesirable to expose end users to.

AFMA considers that mandating overly precise timestamping for energy users will undermine the effectiveness of the REGO and that measuring generation and usage over longer timeframes will better achieve its objectives at greatly reduced cost to government and industry.

#### **AFMA Recommendations**

- ii. The capacity for timestamping should be included in the REGO scheme to support the needs of exporters.
- iii. Purchasing time matching certificates should not be mandatory for Australian energy users.

### **3. Scheme transparency and integrity**

#### **3.1 Register**

AFMA believes that transparency and integrity will be essential for the success of the REGO scheme. Quality of and confidence in the information, particularly as it relates to sustainability credentials, is vital for success of the market. AFMA supports the intention to create a public register to house certificates and agrees that publicly available information is critical to ensuring credibility and trust in the scheme, as stated in the design paper. However, that can only be achieved if the register is well functioning, has high usability and is fit for purpose.

Many AFMA members are Australian Carbon Credit Unit (ACCU) market participants. The majority have found difficulties in functionality and usability of the carbon register: the Australian National Registry of Emissions Units (ANREU). ANREU should be the source of truth to the market, but participants have found it difficult to use and that it does not provide useful information about activity in the market.

As AFMA understands, the scheme will use the new ANREU register, AFMA would as such highlight that we were disappointed with the new ANREU consultation that took place, and we believe that DCCEEW should ensure and prioritise appropriate and thorough consultation with users before building begins.

**AFMA Recommendations**

- iv. Engage thoroughly with users during the design of the register to ensure usability and functionality

**3.2 Scheme expansion**

AFMA notes that at the time of this consultation, some State Governments have already, or are in the process of, implementing their own net-zero schemes; many of which have a particular focus on hydrogen and other renewable gasses. AFMA would therefore urge DCCEEW to work with State Governments to develop national standards that can be used by all schemes. We believe that a national standard will help support integrity and cohesion in the state schemes, ensuring the same definitions are used and lowering administrative burden on both participants and administrators. We believe that Federal Government is best placed to provide the integrity and alignment around renewables gases to support strong markets.

**AFMA Recommendations**

- v. Developing national standards for the renewable gases that will be supplied under proposed state schemes should be a priority.

Thank you for considering the points and suggestions raised in this submission. AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me via [myoung@afma.com.au](mailto:myoung@afma.com.au) or 02 9776 7917.

Yours sincerely,



Monica Young

**Policy Manager**