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21 June 2012

Submission to

Senate Standing Committees on Economics
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Submitted **online**

To whom it may concern

RE: Clean Energy Finance Corporation Bill 2012

The Conservation Council of South Australia strongly supports a price on greenhouse emissions to drive a switch away from technologies and activities that contribute to anthropogenic climate change and unacceptably high risks at a global scale.

The Federal Government's carbon pricing scheme provides an opportunity to begin making some of the changes necessary for a clean energy future. With the limited funds available, it is crucial that the Bill is amended to protect the effectiveness of Australia's Renewable Energy Target, which is still affected by the Solar Credits Multiplier and subsequent reduction of the Large Scale mandatory requirements by 4,000 GWh per year.

Displacing existing efforts for little or no gain

When the Solar Credits Multiplier concept was first suggested in 2008, there was strong criticism[1] that this was just bad policy as it further tangled the voluntary efforts of households such that for every one MWh of renewable energy created, five MWh of renewable energy already required by law, was displaced.

Worse still, the flooding of the market with phantom RECs lowered the price of renewable energy certificates, which had a flow-on effect of largely stalling investment in large scale renewable energy infrastructure. State-based feed-in schemes provided a double incentive, which drove a boom in household solar PV systems to achieve less renewable energy overall, compared with a no household incentive policy.

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[1] See Solar Credits – just bad policy! http://bravenewclimate.com/2009/06/14/solar-credits-just-bad-policy/

The subsequent band aid fixes of reducing the Solar Credits Multiplier at a faster rate and splitting the Mandatory Renewable Energy Targets into two parts (large scale and small scale) established a 4000 GWh handicap on the RET compared to where it had been. Worse still, it is consumers that have ended up paying the price for a flawed policy that has resulted in less large scale renewable energy and probably less renewable energy overall.

This analysis is supported by a report to the Australian Energy Market Operator[2], which stated:

> In 2010, REC prices were depressed and new investments stalled after heavy subsidies for the installaton of household photo voltaic (PV) systems saw the market become flooded with RECs as the uptake of the subsidy scheme surged. At the end of 20-10 there was a surplus of 21 million RECs. (21,000 GWh)

During 2010, the total amount of Renewable Energy Certificates required for the Renewable Energy Percentage under the Renewable Energy Electricity Act was only 12,500 GWh, meaning that the oversupply coming into the market was massive. To a large degree the oversupply represented phantom electricity and voluntary efforts that did more harm than good to the total volume of renewables.

By now, lessons should have been learnt to avoid picking groups of winners that would result in:

- a flood of RECs being released onto the market displacing renewables already required by law;
- reducing REC prices and stalling the investment in the large scale renewable energy infrastructure that Australia needs; and
- creating unnecessary increased costs for electricity consumers (that undermine acceptance of the Renewable Energy Target and Carbon Pricing Mechanism).

Perhaps the biggest single lesson to learn is that policy initiatives must be designed so they can continue when successful, rather than needing to be stopped because they achieve high rates of take-up.

The CEFC Bill 2012 risks displacing other large scale renewables required by law and stalling investment.

It is important that this Bill does not repeat the same mistakes that were made in 2008 and 2009.

Quite simply, renewable energy projects created from funding via the Clean Energy Finance Corporation (CEFC) must not displace renewable energy that is already required by law.

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[2] KPMG (2011)*Stage 3 Report- Semi Scheduled, Scheduled and Non Scheduled and exempted Generation By Fuel Source, 2010-11 to 2034-35* pp. 1-2

Whether the CEFC outcomes in driving new renewable energy projects are large or small, it would still be bad policy if it merely displaced as much renewable energy as it created.

There is a risk that the more successful individual CEFC-funded projects are in creating renewable energy, the greater the impact will be on the forecast market price of RECs, which would re-introduce a stalling effect in the market.

It is not commercially responsible to use billions of dollars to fund renewable projects that displace other renewable energy, resulting in a zero MWh gain. If there is a commercial filter applied, then no CEFC funded project should be approved where it displaces other renewables.

Solutions

Option 1 – Increase the Large Scale Renewable Energy Target to match CEFC funded projects

The ideal solution would be to increase the Large Scale Mandatory Renewable Energy Target to match the output of CEFC funded renewable energy projects. This approach would also mean that such projects could still provide purchase power agreements for electricity, coupled with accredited GreenPower commitments.

Option 2 – Define that complying investments must not create and sell Renewable Energy Certificates

Given that the Renewable Energy (Electricity) Act 2000 is not covered by this consultation process, the only practical way to prevent the displacement problem through this Bill is to require that any CEFC-funded renewable energy projects cannot also be eligible to create and sell Renewable Energy Certificates.

It is suggested that under Section 59 Complying Investments, that an amendment is introduced under 59 (2) as sub clause (d) to clearly state that complying investments are investments that are: 'not to be used to create Renewable Energy Certificates'.

In this way there will not be a risk of displacing renewables that are already required and there will not be a risk of depressing the RECs market and RECs prices.

There is nothing wrong with the use of funds from the Carbon Pricing Mechanism to be used in the CEFC to facilitate new renewable energy and a faster transition to a renewable and clean energy future. However, we must ensure that such a significant capital investment is not wasted. The CEFC must achieve an increase in renewable MWh above that which is already required to happen through the Renewable Energy Target

market mechanism. The CEFC must not risk stalling the RET *market-dependent* renewable energy sector.

I would be happy to discuss this matter with the Senate Standing Committee on Economics

Yours sincerely,

Tim Kelly
Chief Executive