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Committee Secretary
Senate Standing Committee on Environment, Communications and the Arts
PO Box 6100
Parliament House
Canberra ACT 2600. Australia

Dear Committee Secretary,

Inquiry into the Renewable Energy (Electricity) Amendment Bill 2010, the Renewable Energy (Electricity) (Charge) Amendment Bill 2010 and the Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010

GWA Heating and Cooling is a newly formed division of GWA International comprising DUX Hot Water, Ecosmart Hot Water, Brivis Climate Systems and Heat Source.

Previous submission on the Discussion Paper – Enhancing the Renewal Energy Target was submitted 14 April 2010 under DUX Hot Water business name.

- DUX has been making water heaters locally in Australia since 1915.
- By market share, DUX and Ecosmart form the 2nd largest player in the market.
- DUX markets the full range of water heaters including Solar and Heat Pump and is well placed to comment with regard to residential hot water.

This submission by GWA Heating and Cooling is on behalf of DUX Hot Water and Ecosmart Hot Water.

GWA Heating and Cooling supports the proposed changes to the RET in principal with the following comments since reviewing the legislation.

We believe there is risk in the short to medium term of understating the SREC target which may result in undermining the value of the SREC to the consumer.

The Industry experienced a short lived boom in Solar Hot Water and Heat Pump sales between February and September 2009 generated by increased rebates, higher than average REC values and increased awareness of the benefits by the consumer that resulted in increased sales and large number of REC's generated during those months.

Subsequent changes to Solar Hot Water and Heat Pump rebates, uptake of Insulation rebates and lower REC values has resulted in greatly reduced sales of Solar Hot Water and Heat Pumps and therefore far less REC's generated by this sector.

Interestingly, environmental Hot Water sales have not experienced a lift since the suspension of the Insulation rebate package.

However, another anomaly seems to be occurring at present as a large uptake of Solar PV following the REC multiplier and various State Feed in Tariffs has resulted in an upswing in the generation of REC's by Solar PV.

This will result in a large number of REC's being generated by Solar PV this calendar year.

As highlighted in the Amendment to RET explanatory memorandum May 2010;

“Under Option 3, the Government would maintain its overall commitment to achieve at least 45,000 gigawatt-hours (GWh), and therefore 20 per cent renewable energy, in 2020. This would be through the combination of a 41,000 GWh large-scale target, plus the amount of small-scale generation induced by the fixed price regime. The target for large-scale generation would be adjusted downward by 4,000 GWh per year, to take account of the separate support mechanism for small-scale technologies. The rate of subsidy for the small-scale segment would be set with a REC price of \$40.

While the fixed-price segment would add some uncertainty about the quantum of RECs (for liable entities), it would remove uncertainty about the price of RECs payable in respect of small-scale systems. This would remove the impact of the unanticipated uptake of small-scale technologies on the REC market and increase certainty for large-scale technology developers.

Risks

A risk regarding Option 3 is the possibly open-ended commitment to small-scale generation with cost impacts for the liable entities. The proposed approach attempts to mitigate this risk by monitoring the uptake in the market and reviewing the fixed price in 2014. In addition, annual targets could be set with a ‘true-up’ in the following year.”

The explanatory memorandum has identified the risk of an open-ended commitment for liable parties, however has not made the link to the stability of the SREC value.

As there is a disconnect between Federal and State initiatives, further short live anomalies may occur distorting the market within a relatively short time frame.

We believe setting an annual target could lead to a situation that if more SREC's are generated than is estimated for the target to be taken up by the liable parties, it will result in a collapse of the SREC value as smaller operators in the market will not be able to deal with the delay in their cash flow and sell SREC's at unsustainable values.

This will result in destabilisation of the SREC, added uncertainty for the Hot Water Industry and potentially smaller operators leaving the Industry resulting in lesser competition.

If this situation were to occur, then the consumer and the Hot Water Industry would be adversely affected as the consumer enjoys competitive pricing for Hot Water products which also drives innovation within the Industry.

Therefore, to avoid having to take unplanned intervention due to the unintended consequences of unforeseen swings in the market, we suggest that a mechanism be developed that enables the Clearing House to adjust the target on a quarterly basis to reflect what is happening in the market and ensuring SREC stability is maintained.

We also recommend that the Hot Water Industry is involved with the development and establishment of the Clearing House and its information technology system.

As an aggregator of REC's we have first hand experience with the problems associated with obtaining the correct information to enable the REC's to be correctly and promptly registered. If the lessons learnt by the Industry were not built into the Clearing House IT system, then it would be very likely that substantial delays in registering and clearing SREC's would occur. This would be a poor outcome for the consumer and Industry.

GWA Heating and Cooling offers its ongoing assistance in the further development of a sound working Enhanced Renewable Energy Target legislation.

Len Place
Corporate Affairs Manager