Submission to the Senate Standing Committee on Environment, Communications and the Arts

Renewable Energy (Electricity) Amendment Bill 2010 [Provisions]

Renewable Energy (Electricity) (Charge) Amendment Bill 2010[Provisions]

Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010 [Provisions]

Moreland Energy Foundation Ltd

Alternative Technology Association

Introduction

Moreland Energy Foundation Limited (MEFL) and the Alternative Technology Association (ATA) welcome the opportunity to provide comment to the Senate Standing Committee on Environment, Communications and the Arts' Inquiry into proposed changes to the Renewable Energy Target legislation.

MEFL is an innovative not-for-profit organisation established by the City of Moreland in 2000 to reduce greenhouse emissions. MEFL works within and beyond the Moreland community to implement a range of energy efficiency and greenhouse gas abatement programs, including behaviour change programs, research and demonstration projects and advice and information services.

Based on our expertise in this field, MEFL has been engaged to deliver a range of consultancy projects for all levels of government. MEFL is currently developing a number of large-scale demonstration, engagement and enterprise projects as part of the Moreland Solar City initiative, a partnership with the City of Moreland, Victorian Government and Commonwealth Government, under the Federal Solar Cities project.

ATA is a community-based not-for-profit organisation representing consumers in the renewable energy marketplace. The organisation was established in 1980 to empower our community to develop and share sustainable solutions and to promote the uptake of sustainable technologies. The organisation currently provides service to over 5,500 members nationally, who are actively engaged with small scale renewable energy, energy efficiency and the National Electricity Market.

The proposals, recommendations and intentions outlined in this submission have also been endorsed by **Environment Victoria**.

General support for the bills

MEFL and ATA strongly support the proposed changes to the Renewable Energy Target (RET) scheme and thus the timely passage of the Bills. As proposed, the passing of legislation and adoption of the changes will see a re-invigoration of the large-scale renewable energy industry as well as increased certainty and confidence to small-scale renewable energy proponents.

MEFL and ATA firmly believe that the integrity of the Renewable Energy Target is compromised by the existence of the Solar Credits multiplier mechanism and the creation of 'phantom RECs' under the existing Renewable Energy Target arrangements, as outlined below. Further, the dilution of the Renewable Energy Certificate (REC) market via an influx of RECs from small-scale renewable energy technologies such as solar hot water and solar electricity has lead to a collapse in the REC price and a shelving of large-scale renewable energy projects around the country.

The proposed legislation with separate schemes for small-scale (SRES) and large-scale (LRET) renewable energy will help solve these concerns and thus should be supported as a matter of priority.

Flaws in the existing scheme – consumer perspective

There can be little doubt that the primary motivation for the majority of people installing small-scale renewable energy generators is to increase the quantity of renewable energy installed in Australia, and the related environmental benefits that this brings in terms of reduced greenhouse gas emissions. For example, a 2007 survey by the ATA of individuals' motivations for installing solar PV SGUs found that 78% of the 1,300 survey participants cited the desire to have a positive impact on the environment as their main motivation for taking action[1].

Unfortunately, (or to the dismay of individuals and community groups) 'phantom RECs' created under the Solar Credits scheme have been completely negating this positive impact, and as stated will actually *reduce* the amount of renewable installed in Australia. The absurdity of the current situation is highlighted by the fact that under existing Renewable Energy Target arrangements anyone installing a small generation unit (SGU) will be reducing the amount of additional renewable energy produced in Australia by up to four times the life-time generation of their system, as a result of the Solar Credits 'multiplier'.

It is our firm belief that the reason there hasn't been a drop-off in installations of SGUs since the introduction of the Solar Credits scheme is due primarily to the complexity of the scheme, the interaction of the Solar Credit 'rebate' to households, RECs prices and the RET, and the resulting community ignorance about this issue.

MEFL and ATA strongly believe that lack of knowledge of the consequences of community voluntary action should not be grounds to continue what is inherently a flawed scheme, and people should be both aware of the consequences of their choices, and confident that their individual voluntary action makes a significant positive difference to Australia's renewable energy generation and greenhouse gas emissions reductions.

Further, proponents of small-scale generation technologies receiving RECs under the existing Solar Credits scheme are actually leading to a reduction in the amount of renewable electricity generated in Australia – clearly not their intention.

Many of MEFL's constituents and ATA's members are also supporters of large-scale renewable energy and have expressed their concerns with the delay in the deployment of large-scale renewable energy projects, resulting from the oversupply in RECs from small-scale renewable energy technologies and subsequent suppression of the REC price.

Consequently MEFL and ATA broadly support the changes proposed in the Paper, with specific comments on some aspects of concern outlined below. We urge the Committee to recommend the passing of the legislation with haste in order to ensuring the benefits of separating the mechanisms for small- and large-scale technologies are obtained as soon as possible.

[1] ATA (2007) *The Solar Experience - PV System Owners' Survey* [Online: http://www.ata.org.au/projects-and-advocacy/solar-system-owners-survey]

Recommendation 1: That the legislation be passed as soon as practicable to ensure that the full benefits of the changes are achieved

Ensuring the 20% target is met

MEFL and ATA are concerned about the failure of the proposed legislation for the *Enhanced Renewable Energy Target* (eRET) to guarantee that, at a minimum, the current annual targets under the existing RET will be met.

At present, the Renewable Energy Target aims to ensure that 20% of Australia's electricity is generated from renewable sources by the year 2020. This is achieved by setting a target of 45,000GWh of electricity to be generated under the scheme in the year 2020, with interim targets established for intervening years.

In splitting the RET mechanism into schemes for both large-scale and small-scale renewable energy under the proposed changes, the 20% is expected to be achieved through a combination of a slightly reduced target for large-scale renewables under the LRET (41,000GWh by 2020) with *at least* the remaining 4,000GWh to be picked up by the SRES.

On a number of occasions the Government has given assurances that the annual targets under the proposed LRET would be adjusted to ensure the 20% target was met in the event that uptake under the SRES was below expectations. This intention is clearly outlined in the Department of Climate Change's *Enhanced Renewable Energy Target* Discussion Paper, which states:

> *"Combined, the new LRET and SRES are expected to deliver more renewable energy than the existing 45,000 gigawatt-hour target in 2020. The degree to which the 20 per cent target is exceeded will depend on the uptake of small-scale technologies by households, small business and community groups.*
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> *The LRET portion of the target will be increased to ensure the 20 per cent by 2020 target is still met if the uptake of small scale technologies is lower than anticipated"*[2]

However, despite this clear intention, there appears to be no mechanism to increase the annual LRET targets in the proposed legislative changes. Failure to provide such a mechanism may result in the '20% by 2020' target fails to be met, despite government assurances.

MEFL and ATA acknowledge that this is unlikely to be an issue of concern in the immediate few years, given strong current uptake of small scale technologies. However, given:

- uptake rates of small-scale technologies are extremely sensitive to additional stimulus via government incentives and rebates (e.g. the current $1,000 Federal rebate for solar hot water),

[2] Page 1, Department of Climate Change, *Enhanced Renewable Energy Target Fact Sheet*, February 2010

- the continual changing nature of these incentives (as proven by state and Federal government policy over the previous five or so years), and
- the reduction of the 'Solar Credits Multiplier' from 2012,

there is significant uncertainty around ongoing uptake rates for small-scale technologies under the SRES, particularly through the middle and later years of the eRET. As such, there is considerable uncertainty as to whether the SRES will make up the shortfall between the proposed LRET target and the present RET target.

MEFL and ATA recommend that the legislation be amended to contain a mechanism to ensure that the existing RET targets are met under the enhanced scheme via the adjustment of annual LRET targets, in the event that SRES take-up falls short of expectation and an undersupply of RECs eventuates.

Recommendation 2:	**That the legislation contains a mechanism for adjusting annual LRET targets to make up the short-fall, in the event that the total quantity of renewable energy represented by SRECs traded through the SRES in any given year, combined with the LRET targets for that year, fall short of the quantity of renewable energy specified under existing RET targets**

Dealing with the REC oversupply

As mentioned in our previous submission on the enhanced RET, MEFL and ATA are also concerned by the likelihood that the LRET will continue to be undermined by:

- the existing level of REC oversupply (estimated to reach in excess of 20 million RECs by the end of 2012); and
- the ability for deemed RECs from pre-existing forward contracts to be surrendered against the LRET.

Industry modelling suggests that this could further delay any new investment in generation until 2015, contravening the main intent of splitting the large and small scale markets under the enhanced RET.

Given the existing 'soft' ramp-up targets of the RET over the first five years (also reflected in the proposed LRET), MEFL and ATA would support any proposal to increase the annual LRET targets in the initial years (i.e. 2011 – 2015) in order to deal with this continuing oversupply problem.

Recommendation 3:	**That the LRET targets in the initial five years (i.e. 2011 – 2015) be increased to absorb the current and future REC oversupply problems and increase the likelihood of large scale generation investment occurring in the early years of the enhanced scheme**