Senate Standing Committee on Environment, Communications and the Arts

Inquiry into the Renewable Energy (Electricity) Amendment (Feed-in-Tariff) Bill 2008

Committee Secretary
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Ph: 6277 3526
Email: eca.sen@aph.gov.au

Submission from:
SolarCo Pty Ltd

FiT Vs SHCP Rebate.

There is no doubt the introduction of the means test for the SHCP (Solar Homes and Communities Plan) rebate has had a seriously detrimental effect on the solar industry in Australia. The Howard Government, though not applauded when doubling the PVRP (Photo Voltaic Rebate Program) from $4,000 to $8,000, did create the opportunity for hundreds of sustainably minded investors to have PV systems installed. It caused the PV industry to rekindle hope that a slowly emerging industry could burgeon into a Colossus. Indeed, the industry saw substantial growth. There was cause for optimism. Then with a single pen stroke, the industry was effectively bought to its knees. Hundreds of orders were cancelled, untold jobs were lost and a feeling of devastation and betrayal pervaded the industry, based on Labour's green credentials and promises alluded to leading up to their election victory.

The notion of a FiT might indicate significant financial gain for PV installers, particularly based on the popular ratio of 4:1. Such is not necessarily the case. It is widely accepted that the breakeven point for a 1kW (one kilowatt) installed system is likely to be around 5 – 7 years with a FiT. This is based on the average consumption of approximately 6.5MWh/annum (6.5 megawatt hours per annum). Add to this likely price rises in the cost of electricity of around 6 – 8% per annum and the cost of the likely carbon tax and it can easily be seen that financial gain is not at the heart of this investment, rather to maintain the status quo.

The SHCP enabled customers to effectively halve the cost of a PV installation, given that $16,000 is generally accepted as a price point for a 1kW installation. RECs offered an additional incentive to reduce the price by another $1,000 (approximately), meaning customers were looking at a personal investment of up to $7,000. By maintaining the SHCP (with no means test) and offering a FiT of 2:1, a breakeven point of around 12 – 14 years is achievable, based on previously indicated usage patterns. With no FiT, it is currently believed that up to 17 -18 years is required to reach that point.

The benefits of this scenario are –

- Provides incentive for PV customers to invest in their own renewable energy generation equipment
- Provides potential PV installers with a realistic vision of when they might 'own' their system

- Provides potential investors with immediate positive feedback and the real knowledge they are tangibly reducing greenhouse gas emissions by producing their own electricity
- Given all generation is exported to the grid, immediately assists energy companies with demand management of networks, and may forestall brown outs or calls for cuts in electricity usage during peak or very heavy demands, particularly in summer. This may also assist SWER customers.

Points for consideration.

- It is well accepted that PV generation times match peak load demands in major capital cities
- An increase in PV installations will have a positive effect on current and future Demand Management (DM) requirements for LNSPs (Local Network Service Providers), particularly where upgrades or refurbishments need to be considered
- An increase in PV installations will assist in meeting MRETs (Mandatory Renewable Energy Targets), particularly on behalf of energy retailers as they have legislative requirements to meet these targets on behalf of their organisations. This will be maintained even after current energy retailers are sold off in NSW
- The emergence of any ETS (Emissions Trading Scheme) is likely to increase the price of electricity to consumers and a PV installation is one way of limiting those increases
- Any FiT (Feed-in Tariff) must be based on gross or total energy generation, rather than net generation which does not adequately reward the generator and has the effect of rewarding large energy consumers, as this energy is being generated at the time they are consuming the most. This is based on large consumer's ability to negotiate electricity prices far below those that are paid by 'ordinary' consumers
- Any FiT needs to be modelled on the German system, which has been proven and has seen an explosion of PV systems installed over the past 5 – 7 years. This expansion has caused the Germans to raise their expected RET (Renewable Energy Target) to 12.5% of total consumption
- Any FiT should offer PV installers a 20 year contract, provided those customers are capable of demonstrating their commitment to continued energy efficiency and sustainability. It defeats the purpose for PV installers to continue to maintain a large electricity usage after their system has been installed
- Any FiT will provide customers with a substantially reduced 'time to own' their system
- With the introduction of a FiT, more people are likely to install PV systems. This is likely to have the knock on effect of increasing the price of RECs (Renewable Energy Certificates). It is possible this increase could be used to partially offset any ETS introduced
- Any FiT must be introduced with retrospectivity and must allow for those early adopters (customers with equipment currently generating to the grid) to join the scheme from the date of enactment or when the law is passed.
- There should be no limit on the installed base of systems. Consideration may be given to the FiT rate paid based on that installed base, and whether the customer is residential or commercial.

FiT Scheme.

A number of crucial points need to be made in relation to the operation of the scheme –

1. The onerous task of reporting could easily be delegated to the electricity retailers, as they are required to read meters on a quarterly basis and, as a matter of reporting, could

easily report total generation to the relevant authority. It is easy to see the payment for generation being adjusted on the customers electricity bill as a credit and relevant requests for reimbursement, via the FiT levy, being made with the report

2. Individual customers reporting to a central point will be an administrative nightmare as there are potentially thousands of existing sites and the possibility of thousands more. With customers reporting at different times of the month/quarter/year, it is highly likely that reports will be lost. The upshot of this will be delayed payments, requests for the report to be sent again and even more importantly, delayed reports to the government on the success or failure of the system
3. The FiT rate should be set for a minimum of 20 years, with adjustment on a five yearly basis. With the inevitable increase of electricity, it is easy to see how this rate will be eroded. It could be argued that the set rate, and adjustments, could act as a barometer to increase or decrease the level of installations and the government's requirement for renewable energy, in much the same way that interest rates control the economy.
4. It is necessary that there be adequate appropriated funds made available for this scheme. For the funds to be paid to the owner of the generation equipment on a yearly basis again adds to the administrative burden. If these were paid as a credit on electricity accounts on a quarterly basis, significant double and triple handling would be reduced or negated.
5. It is likely that any government may see the credits generated as income to the owner. A ruling would need to be made as to whether it becomes taxable income or not. If it is taxable income, at what rate is tax applied? Currently there is no tax on credits generated from existing installations. If tax is to be applied, this will be a serious disincentive and will further erode any benefits to the owner.

Summary.

Australia is a sun-abundant country and sadly lags way behind the rest of the world in terms of adoption of PV and solar alternative generation systems. The other prerequisite is area to install PV systems. Australia is abundant there, also.

Introduction of a FiT is one way of stimulating the PV industry to levels unprecedented in Australia. The important issue here is that it must be based on gross or total generation. Anything less defeats the purpose. This could be used in conjunction with the SHCP rebate to achieve a balance, but must take both SHCP means test and FiT into consideration when making that decision.

Submitted for your consideration.

Rob Lee Tet
On behalf of SolarCo Pty Ltd.