

Chapter 3

Planning for the future

Rebates

3.1 The Coalition believes that rebates play an important role in developing industry capacity. The rebate of \$8 per watt under the Howard government clearly achieved this objective by encouraging PV uptake among Australians, resulting in strong growth:

The increase in the solar rebate to a maximum of \$8000 per household... in the 2007 Federal Budget saw the domestic solar industry literally take off in spectacular fashion. For the first time, along with an increased and growing public awareness of the environmental virtues of solar electricity, it allowed many more households to access solar for as little as a \$5000 outlay, not much more than a credit card payment for most.¹

3.2 The availability of a maximum \$8000 rebate has not only sparked growth in consumer interest in the installation of PV systems and begun building a larger industry with greater capacity to deliver environmental outcomes for Australia, but has also helped to reduce the price of PV units and sparked a new interest in bulk purchases to install units for a smaller cost. For example, the Queensland Government recently tendered to solar installers to supply 1000 1kW PV systems for \$8185 – a total cost of \$185 to households qualifying for the rebate.²

3.3 The Queensland Government Scheme, along with other bulk purchases, provides a stark example of why the introduction of the means test was the worst possible policy that the Rudd Government could have introduced. The means test limits the market to households with smaller incomes who install the smallest system available for the maximum rebate, resulting in 'less bang for the buck'. As a direct result of the means test taxpayers are now paying more per watt of renewable energy generated than was previously the case.

3.4 The Committee received evidence from numerous households with a taxable income of over \$100,000 who were prepared to install bigger systems using the \$8000 rebate as an offset to costs, rather than simply using the rebate to pay for a system in its entirety:

1 M & H Power, *Submission 71*, p. 1.

2 Ministerial Media Statement, *Bligh Government drives down solar prices*, <http://www.cabinet.qld.gov.au/MMS/StatementDisplaySingle.aspx?id=59374> (accessed 12 August 2008).

The initial cost of \$8500 less rebate meant a cost to me of \$500, and also being an electrician, this offer was too good to refuse. So we drew on our mortgage and paid in full for a **1.5kW** solar system. (emphasis added)³

I was prepared to spend \$15,000 to install the PV cells on my house but without the rebate this will blow out to \$23,000, which when added to a mortgage with an interest rate of nearly 10%... is now not feasible.⁴

3.5 Numerous witnesses to the inquiry suggested alternatives, such as a higher means test, a tapering of the means test or a restructure of the rate of rebate to encourage the installation of larger systems. All witnesses, except the government, opposed the means test in its current form.

3.6 The Coalition opposes the means test outright. It confuses a policy directed at achieving environmental outcomes with a social justice policy. If there were to be any change to the rebate system it should be one that encourages the generation of more renewable energy, not less. Those with strong environmental concerns who are willing to contribute more money to reduce their carbon footprint should be encouraged, not punished.

3.7 For example, Mr Andrew Bailey, who does not qualify for the rebate, noted that when he would have been prepared to contribute more of his own funds towards PV - 'I would have looked at 50 per cent of the rebate cost. I would have gone to \$4000'.⁵ With no access to a rebate, Mr Bailey will not proceed with the installation of PV at his residence.

3.8 The provision of the rebate also requires longer term certainty. The Howard Government guaranteed the solar industry five years of funding for the \$8000 rebate (free of any means test) and with a Prime Ministerial assurance that more funds would be made available to meet any increased demand. The Rudd Government has not only introduced a means test, but wound the five year program back to three and has even failed to give industry a clear assurance that all applications received this year will be funded. Their actions have sparked panic in the market and extreme uncertainty in the solar industry.

Recommendation 2

3.9 Coalition Senators recommend the Rudd Government reverse the means test and provide certainty to industry with ongoing funding of the rebate for the next five years.

3 Mr Andrew and Mrs Janette Bailey, *Submission 5*, p. 1.

4 Mr Tony Hansen, *Submission 24*, p. 1.

5 Mr Andrew Bailey, *Committee Hansard*, 11 August 2008, p. 40.

Renewable Energy Certificates

3.10 Renewable Energy Certificates or RECs provide additional support to the installation of photovoltaic systems as well as solar water heaters. RECs are provided as part of the Mandatory Renewable Energy Target and are usually sold to offset the cost of installation. The Committee heard evidence about the importance of RECs for both PV systems and solar hot water:

Primarily I can speak from a hot water perspective, if we did not have the RECs I would say I would be out of business in a minute. Obviously, particularly for those people who do not qualify for rebates, the RECs are the only contribution they get. A typical (hot water) system is about \$4,000 and RECs generally provide another \$1,000 back, so it reduces the cost by about 25 per cent.⁶

3.11 RECs generated by PV systems, especially larger systems, are of even greater value, providing another means to offset the high upfront cost of installation. Coalition Senators and the solar industry were concerned to learn during the course of the inquiry that the future application of RECs to this sector was also at risk:

Treatment of solar water heaters under the expanded national RET scheme will have implications for the cost of the scheme, the liquidity of the RECs market, the technology mix and the amount of electricity generated by renewables in 2020. Stakeholders views are sought on the treatment of renewable energy sources and technologies, including the treatment of biomass and solar water heaters.⁷

3.12 The shadow cast over the future application of RECs to the solar industry, coming on top of the means testing of the rebate, has caused further anxiety and unnecessary business uncertainty. Coalition Senators urge the Government to remove this uncertainty immediately and confirm the continued availability of RECs for solar water heaters and photovoltaic systems.

Feed-in-Tariffs⁸

3.13 The Coalition recognises the potential of gross feed-in-tariffs to provide a medium term payback period that encourages private sector investment in PV systems and, therefore, certainty for the solar industry over the medium term.

6 Mr Mark Rickards, *Committee Hansard*, 11 August 2008, p. 8.

7 COAG Working Group on Climate Change and Water, *Design Options for the Expanded National Renewable Energy Target Scheme*, p. 7.

8 Households with their own small-scale renewable energy systems can produce more energy than they use. If connected, they can feed this electricity back into the power grid. A feed-in tariff is a credit to households from power companies for the electricity that is fed back into the grid.
<http://www.dpi.vic.gov.au/dpi/dpinenergy.nsf/LinkView/47D19C1C08345367CA25736A001FCDF7866B51F390263BA1CA2572B2001634F9> (accessed 13 August 2008).

3.14 A gross feed-in-tariff system has received expert support from witnesses to this inquiry, with many citing the German feed-in-tariff model⁹ and others as ideals for Australia to strive towards because 'they provide long term certainty'.¹⁰

3.15 Professor Andrew Blakers, Director, Centre for Sustainable Energy Systems believes that Australia has the potential to match Germany's growth rates in solar PV and he notes that 'it would be a substantial method of meeting the government's 20 per cent renewable energy target by 2020'¹¹. Professor Blakers also described to the Committee the support that the photovoltaic industry receives in Europe, California and Singapore where 'there is support for solar commercialisations at every level – from the local council, the state government, the federal government...'¹².

3.16 The Coalition is committed to ensuring the growth of Australia's solar industry and believes that a national feed-in tariff regime is the logical next step in supporting the advancement and development of this important industry. However, there can and should be no 'gap' period in support for the solar industry. Rebates to support the upfront cost of PV systems must be either maintained in some form that is complementary to feed-in tariffs or phased out in a smooth, well planned transition from rebates to feed-in tariffs.

Recommendation 3

3.17 Coalition Senators recommend the Rudd Government strongly consider a national feed-in tariff system and immediately begin consultation with the solar industry and experts to establish the most cost effective mix of tariffs and rebates to maximise environmental outcomes.

9 The German system of feed-in-tariffs gives preferential tariffs for solar generated electricity. Under the tariff structure, the base level of compensation for ground-mounted systems can be up to 45.7 euro cents/kWh. Germany is the largest solar heating producer in the world with a 47% share of the global market. The industry employs more than 20,000 people, and has a turnover of €1.7 billion per year. The renewables industry as a whole in Germany had a turnover of €21.6 billion in 2006, up from €16.4 billion in 2005, and employed about 214,000 people – more than the nuclear and the hard and brown coal industries combined. It is expected that by 2020 the renewable energy industry will employ 500,000 people. <http://www.e-parl.net/eparimages/general/pdf/080603%20FIT%20toolkit.pdf> (accessed 13 August 2008)

10 Mr Warwick Ryan, KPMG, *Committee Hansard*, 11 August 2008, p. 15.

11 Professor Andrew Blakers, Director, Centre for Sustainable Energy Systems, *Committee Hansard*, 25 July 2008, p. 12.

12 Professor Andrew Blakers, Director, Centre for Sustainable Energy Systems, *Committee Hansard*, 25 July 2008, pp. 13 - 14.

Carbon pricing

3.18 The Coalition notes and shares the hopes of manufacturers, installers and environmental commentators that the effective pricing of carbon in the long term, combined with a reduction in costs associated with PV technology, will allow the equal competition of PV in the energy market.

3.19 These hopes are balanced against great concern about the capacity of the Rudd Government to effectively deliver such a system of carbon pricing. The failure to consider any of the negative impacts on the market, the solar industry or the production of renewable energy prior to introducing this means test leaves Coalition Senators with grave concerns about the capacity of the Rudd Government to introduce an emissions trading scheme (ETS) without again causing severe negative consequences. Rushed and ill-considered policy in an area as simple as solar rebates has caused chaos for this part of the renewable energy sector. The consequences of similarly rushing the introduction of an ETS are unthinkable.

3.20 The Coalition urges the development of a long term strategy for the solar industry to build the capacity and the sustainable market needed to achieve their goal of being an equal competitor in the energy market. This begins with the abolition of Kevin Rudd's means test on solar rebates.

Senator Simon Birmingham
LP, South Australia

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