

## Submission to the Senate Committee Inquiry into Save Our Solar (Solar Rebate Protection) Bill 2008 [No. 2]

### Introduction

Australia has fallen well behind many other countries in the implementation of Solar Power, despite the enormous potential for solar in Australia. It is important that we catch up for many reasons, most importantly as part of the urgently required shift away from unsustainable polluting fossil fuels to sustainable, emissions free, renewable energy systems. This has been made very difficult due to the introduction by the Federal Government of a 'means test' to the rebate for residential solar power. It is unlikely that many people will install solar on their homes now. It has effectively destroyed a great deal of the solar industry overnight, an industry that we are going to need if we are to properly respond to climate change.

Means testing the rebate is a misunderstanding of its real purpose. It is also a serious betrayal by the Rudd government who promised decisive action on climate change. This decision has crushed an embryonic industry that the rebate was designed to support. Claims by the Minister for the Environment, Heritage and the Arts, Hon. Peter Garrett AM, MP, that means testing of the rebate for residential Photovoltaic (PV) Solar Power Systems “enables the rebate to go to those families who actually do need it most” demonstrates the aforementioned misunderstanding. Government subsidies for sustainable energy (including the solar rebate) are about correcting the current market failure, specifically internalising the external public benefit of solar energy into the price of solar electricity. Government subsidies for the sustainable energy industry are designed to support the development of this vitally important new industry.

In addition, the Minister's claim that the rebate was 'overheating' is extremely misleading. Australia falls well behind Japan, the U.S. and several European countries in relation to diffusion and uptake of residential PV solar power systems and targets in place in these countries for dissemination of grid connected residential solar power system. We believe that the Government has set the bar well and truly too low for uptake rates of residential solar power in Australia.

We do not believe that the PVRP or the new means tested SHCP scheme is the most economically efficient or technically effective method of subsidising PV solar electricity, though it was working well and the residential PV solar industry was growing and the levels of uptake were increasing (though not overheating). However, application of the existing means test to the rebate effectively abolished it, as there are very few households with a combined taxable income of less than \$100,000 who can afford to invest in PV solar power systems, which indirectly benefit all Australians. To effectively abolish the solar rebate without simultaneously replacing it with another effective form of subsidy is reprehensible. To our knowledge there was no consultation with the public or the solar industry before this decision was implemented.

### **Effect of the Means Test**

Autonomous Energy has been heavily effected by the means test which essentially halted our activity in the residential grid connect solar area, losing sales and halting our plans for additional recruitment of solar installers. The area in which we are based on Sydney's Northern Beaches has higher than national average income levels. The means test has virtually eliminated the potential pool of customers available to us. We believe that the means test unfairly affects those businesses based in capital cities and particularly those based in the more affluent areas.

There is a strong feeling in this area that people would like to make a positive contribution to the environment and the fight against climate change, especially one such as solar power which does not reduce their quality of life or require major changes in lifestyle. However people are generally unwilling to do so without some external assistance which the rebate provided.

### **Recommendations**

**Autonomous Energy recommends a moratorium on the means test for the rebate and the rapid development of an effective nationally consistent renewable energy feed in tariff.** Feed-in tariffs are currently in operation in over 40 countries and provinces around the world, are proven to be the single most effective incentive to reduce the economic barrier and encourage the uptake of renewable energy generation

(Mendonca, M. 2007). Feed in Tariffs have worked very well in Germany and other European countries and appropriately address the current market failure in relation to the true costs of fossil fuels not being included in the price and the real value (public benefit) of renewable energy not being included in the market price of clean energy. Grid connected solar power could also greatly reduce the investment required to upgrade the electricity grid transmission and distribution infrastructure – another indirect benefit of solar power.

It is very important that any national feed in tariff is ‘gross metered,’ ensuring a premium is paid for the total amount of energy generated in a photovoltaic solar system as opposed to a ‘net metered’ feed in tariff which only ensures a premium is paid for the electricity that is actually exported to the grid, rather than the total amount of clean energy produced, much of which is used on site.

Acceptable short term alternatives could include a sliding scale means test starting at a gross, taxable, household income of \$150,000, or other means, to encourage those households with sufficient income to afford the outlay required for a photovoltaic power system to invest in them. An example would be to provide the \$8,000 rebate to home owners over the income threshold but only on their second kilowatt of power.

### **Uneven Playing Field**

The Australian Government spends approximately \$9-10 billion every year on subsidies for fossil fuels (Riedy 2003), and there is, relatively, very little incentive for the use of sustainable energy. Subsidies for fossil fuels increase GHG emissions and the degree of environmental destruction caused by climate change. The available research suggests that the majority of fossil fuels subsidies have a negative impact on the economy as well as the environment. Some argue for the complete removal of all subsidies due to the fact that subsidies distort markets and reduce economic efficiency (Diesendorf 2003). However subsidies for sustainable energy are justified because they will begin to offset the unpaid social and environmental costs of competing fossil fuels.

The fossil fuel industry benefits from enormous government subsidies keeping their prices artificially low. In accounting for the real cost of fossil fuels to society, both

subsidies and external costs must be considered. The social costs of fossil fuel use are much higher than the private costs and almost all of these social and environmental follow up costs associated with conventional use of fossil fuels are currently not borne by the fossil fuel industry but by the general public, taxpayers and future generations (Jacobssona & Lauber 2006). Taxation on fossil fuels in Australia is not currently used to internalize the externalities of fossil fuel use or to reduce our fossil fuel dependency. For example the Senate Inquiry into Global Warming received evidence that in the last 30 years Australia has spent \$1 billion on public transport and \$43 billion on roads. As well as removing unsustainable subsidies Autonomous Energy advocates that new policy to encourage diffusion of sustainable energy systems can also internalise the externalities of fossil fuel use, as does the Renewable Energy Sources Act in Germany.

Selectively removing fossil fuel subsidies is desirable for economic, social and environmental benefit. Out of the \$9 billion worth of fossil fuel subsidies Riedy (2003) has determined that 91% of these subsidies increase GHG emissions above the unsubsidised level, and about 58% of the total fossil fuel subsidies increase GHG emissions and at the same time reduce economic efficiency. Removal of the latter 'perverse' subsidies delivers the double benefit of GHG emission reduction and improved economic performance. Although there are significant political, institutional, economic and cultural barriers that must be overcome, countries such as Brazil, China, the Czech Republic, India, the Netherlands, Poland, the United Kingdom and Russia have reduced or eliminated fossil fuel subsidies successfully. It is important to note that the removal of these perverse subsidies in Australia must be carefully planned and implemented gradually to minimise possible disruptions that may result. Removal of perverse subsidies for fossil fuels needs to be replaced with temporary subsidies for the sustainable energy industry.

### **Conclusion**

Autonomous Energy believes that the means test will seriously damage the solar industry, especially in capital cities where incomes are higher, as well as decreasing GHG emissions reductions produced by residential solar power systems

The means test should be removed or replaced with a sliding scale in the short term with the view to introducing a national, gross, long term solar feed in tariff. Cuts to perverse subsidies to fossil fuels ought to be used as an economically efficient method of reducing Australia's GHG emissions and also as a potential source of funding for subsidies to the sustainable energy industry.

## References

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