

# **A Submission to Inquiry into the Renewable Energy Legislation Amendment (Renewable Power Percentage) Bill 2008**

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This submission rejects the concept of a feed-in tariff (FIT) or any other methods that attempt to "pick winners" be it coal sequestration, solar subsidies or wind farm tax relief. Rather it recommends an alternative Rewards-based approach. Rewards (similar in concept to frequent buyer incentives) overcome issues of social equity. They work within a commercial market, a trait which allows the system to adjust to changing technologies. Plus Rewards demonstrate the greatest reduction in greenhouse gases for a given expenditure. This submission recommends that we:

1. Give monetary Rewards to those people whose lifestyle, investment choices and home technologies result in a low net consumption of electrical energy produced from burning fossil fuels.
2. Require these monetary Rewards to be spent on infrastructure for devices eligible for a feed-in tariff as well as other greenhouse gas reducing technologies.

## **Difficulties with FIT and other "picking winners" strategies**

While this submission concentrates on FIT the same arguments apply to any other scheme by the government to "pick winners". The FIT is chosen in this submission because it is obviously an economically inefficient strategy.

The concept of a FIT that gives a high price for renewable energy input into the grid is superficially attractive. It is more appealing than schemes to trade carbon or emissions permits because it channels price increases to renewable energy infrastructure. Unfortunately it does not direct investment to the most efficient and effective investment in ways to reduce greenhouse gases.

## **Pricing Energy at Market Rates**

Aligning the price of energy to spot market rates is a more effective approach and will lead to better allocation of resources. For example it will encourage systems that store energy and release it into the system at times of peak loads. The ability for prices to vary according to demand or market-based systems are both more likely to lead to efficient resource allocation and will result in more efficient use of energy.

## **Reduction Incentives should be Technology Agnostic**

Setting a price that is above the cost of producing renewable energy from other systems diverts resources from alternative methods of reducing greenhouse gas generation. For example a fixed high FIT that is priced above the cost of green energy from the grid will divert people from equally important measures such as subscribing to green choices, installing solar hot water systems or installing insulation in houses. All of these actions need to be encouraged to reduce greenhouse gas emissions.

## **Any Proposal should be socially equitable**

A FIT that subsidises those who can afford the capital to purchase an energy-generating system will divert money from the poorer members of society to the richer. A high FIT is ultimately paid by other consumers who do not have an energy generating system. While auxiliary schemes can be invented to help overcome such inequities it is better to have systems that do not need supplementary measures, as these can also be problematic.

## **Any Proposal should result in genuine reductions in greenhouse gases**

A fixed FIT on the generation of electricity does not encourage people to reduce their consumption of energy. In a perverse way it may even increase total consumption. The psychology of a feed-in system for some people - particularly the rich - is that because they have feed-in power to the grid, they feel entitled to consume more energy. Thus they consume the energy they generate while continuing to consume the same amount of non-renewable energy. While this does not apply to all people there will be enough to make the system less effective.

## **A Socially Equitable Rewards Approach**

The following proposal gives a financial benefit for clean energy generation through the provision of Rewards for low consumption of polluting energy. A principle for any socially equitable system with respect to greenhouse gas reduction is that those consumers who cause the least damage to the environment should pay the least and should be rewarded for their constraint. In the case of electricity this can be achieved by diverting money from those who pollute to those who generate less pollution.

This can be achieved in the following way.

1. Place a surcharge on the price of all energy generation in proportion to the greenhouse emissions created when the energy is produced.
2. Distribute the money collected from the surcharge as Rewards to all consumers in inverse proportion to their net greenhouse emissions from their mains energy consumption.
3. Require Rewards to be spent on approved ways to reduce greenhouse emissions. Existing installations of renewable energy systems can qualify as approved ways.

The approach is equitable because it rewards those who have already installed systems; it rewards those who consume less energy (who are often the less well off members of society); and it rewards people who invest in ways to reduce greenhouse emissions in whatever way they deem appropriate for their situation. It also encourages clean energy community schemes by enabling households to invest their Rewards in neighbourhood feed-in systems and to offset their household energy use against their share of the community energy produced.

This approach addresses the issues raised from a FIT. It can be tuned by the government to achieve any desired reduction of emissions through changes to surcharge amounts.

It can be implemented efficiently through the use of modern IT and Internet systems. The running costs come from the Rewards recipients and merchants using the system. A government can obtain any level of greenhouse emission reduction desired from household electricity consumption through this approach by simply varying the surcharge added to electricity prices of non green energy.

## **Summary**

The objective of a FIT is to reduce greenhouse emissions, not to promote a particular technology. Relating the subsidy directly to the reduction in emissions regardless of the technology will lead to more efficient expenditure because it brings choice and allows the market in renewable energy production and energy savings to operate effectively. The introduction of Rewards will encourage the adoption of a plethora of renewable energy technologies including PV solar panels. Rewards is socially equitable and favours the frugal over the high consumers. It can be introduced for a low cost and will be seen as fair and equitable by most of the population.