Minority report by Senator Xenophon

Introduction

The purpose of the Renewable Energy (Electricity) Amendment Bill 2009 is to expand the current Mandatory Renewable Energy Target (MRET) as well as replace a range of state and territory schemes into one national scheme. The primary aim of these changes is to have at least 20 per cent of Australia's electricity supply coming from renewable sources by 2020.

The method by which this is proposed to be achieved is through the creation, purchase and surrender of Renewable Energy Certificates (RECs). While the majority of these RECs will be created by accredited power suppliers, other sources may also create RECs. These sources may include eligible solar water heaters and other smaller generation unit installations.

Liable entities will be required to purchase and surrender RECs to cover a percentage of energy purchased. Currently, this is 3.64 per cent, which in practice means that in 2009 a liable entity purchasing 100,000 MWh will have to purchase 3,640 RECs. Failure to purchase and surrender the appropriate level of RECs will result in a shortfall charge of $65 per megawatt-hour.

The intended outcome of this bill is to increase the current annual renewable energy targets from 9,500 gigawatt-hours (GWh) to 45,000 GWh by 2020.

While I broadly support the proposed aims, approach and outcomes of this bill, throughout the Economics Legislation Committee inquiry a number of anomalies were highlighted. This minority report address each of these anomalies in turn.

Specific provisions of the bill

Solar credits and the impact on the solar industry

Witnesses noted that the hiatus between the end of the solar rebates scheme and the commencement of solar credits within the RET was harming their industry. The solar credits mechanism allows owners of small scale renewable energy systems, such as household photovoltaic systems, to earn multiple RECs.

These 'phantom credits' will result in a small solar panel earning five times more RECs that it would otherwise generate. While this multiplier will decline over the next five years, it still provides a clear incentive for the public to purchase solar systems. Witnesses from the solar industry reported a dramatic decline in orders for solar PV since the end of the rebates and with the referral of the bill to committee, as well as a substantial loss in revenue and job losses.

It was also noted by witnesses, such as Adrian Ferraretto of the Solar Shop in South Australia, that a growth in the solar industry in the medium term is vital to the successful transition to renewable energy sources and meeting renewable energy targets in the longer term. The solar industry needs to be strong by 2015 when it is projected that cost of installing panels is equivalent to purchasing from a utility. The Australian solar panel industry needs initiatives such as 'phantom credits' to assist in its transition over the next five to ten years.

However, 'phantom credits' should be offset to the extent necessary to ensure that there is no delay in achieving the targets in the bill.

The short and long term viability of the solar industry in Australia is a matter of great concern, and should be supported by the swiftest responsible passage of the RET.

Provisions for natural gas

The Australian Industry Greenhouse Network (AIGN) drew on Productivity Commission data, Treasury modelling and the Garnaut report to express concern over the impact of the RET on natural gas, and its role in transitioning away from coal fired generation.

Mr Hitchens from AIGN stated that mandating gigawatt hours from renewable energy:

> …effectively squeezes out gas fired generators, because they are the next best technology for reducing emissions in electricity generation. What we should have expected in the absence of a MRET is that gas fired generation will replace coal fired generation – that is, we will stop building new coal fired generation and we will build gas fired generation instead. What that the MRET does is effectively take away that market from the gas fired generator, because it has already assigned that part of the market to renewable generators.[1]

There is real concern is that this will effectively discourage the use of natural gas, which is 40 to 50 per cent cleaner than coal and have the unintended consequence of inhibiting the transition from coal fired generation to renewable energy sources. Clearly, natural gas is an important transitional fuel for lower emissions.

The inclusion of water heat pumps

Another matter that was subject to contention was the inclusion of heat pumps within the RECs scheme. An important distinction between solar heat pumps and refrigerated heat pumps seemed to have been overlooked in the definition of eligible renewable energy sources.

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1 Mr Michael Hitchens, Chief Executive Officer, Australian Industry Greenhouse Network, *Proof Committee Hansard*, 5 August 2009, p. 49.

While the Department of Climate Change argued that all heat pumps should be included because of their relative efficiencies, other industry representatives argued against the inclusion of heat pumps that did not absorb solar radiation to create energy.

Further, the huge compensation being provided in the RET to all heat pumps, including air sourced (refrigerated) heat pumps, is a disincentive to people taking up solar water heating options.

Currently, the Government, working with COAG, have instigated a review into the place of heat pumps within the RET.

Evidence clearly indicated that having heat pumps included in the scheme is seen by many as a rort and environmentally ineffective.

Providing for base-load power through geothermal energy

Submissions to the inquiry indicated that there may be practical limits to increasing electricity from renewable sources because many renewable sources are not able to provide and maintain baseload power.

As the CSIRO,[2] amongst other witnesses, indicated, geothermal energy is one of the emerging renewable technologies that is looked upon as likely to deliver baseload energy.

The Australian Geothermal Energy Association (AGEO) submission warns that the RET in its current form does not provide for the required acceleration in the development of emerging renewable technologies, as neither industry nor the investment community have confidence in the RET incentives. In her evidence to the committee, AGEA CEO, Susan Jeanes, explained:

> …that the incentives under offered under the scheme might not be available by the time geothermal projects and other emerging renewable energy technology projects were ready to come onstream… It is in this context that we express our concern that the RET scheme will in fact defer the development of geothermal energy projects in Australia...[3]

There remains real concerns that without significant changes to the RET then geothermal energy will be stunted in its development in this country.

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2 Dr John Wright, Adviser, Sustainable Energy Partnerships, *Proof Committee Hansard*, 5 August 2009, pp 38-9.

3 Ms Susan Jeanes, Chief Executive Officer, Australian Geothermal Energy Association, *Proof Committee Hansard*, 5 August 2009, p 51.

Review of cost effectiveness of RET measures

Various submissions to the inquiry expressed concern both that the RET in its current form would not encourage a diverse range of renewable energies in Australian in the future, and it would not be cost effective relative to the investment made in these renewable sources.

Such questions about the cost effectiveness of the RET, particularly in relation to return for investment in renewable energies, are worthy of independent review.

Linking the RET and CPRS

Significant consideration was given to the appropriateness of the Government linking the RET to the passage of the CPRS legislation.

Beyond the clear political motives behind the Government position, the Department explained that the linkage was necessary to address the cumulative impact of the introduction of the two policies and because the CPRS provides a regulatory framework within which the RET would operate.

However, witnesses to the committee indicated that in practice the delinking of the CPRS and the ETS is a simple drafting exercise whereby the definition of Emission-Intensive Trade-Exposed industries was inserted into the RET bill. Further, the regulatory environment is within the Government's control and this is not an insurmountable challenge, if a challenge at all.

I support the delinking of the CPRS and RET bills.

Recommendations

Recommendation 1

That the RET be supported as swiftly as is responsibly possible, taking into account the anomalies highlighted in this report.

Recommendation 2

That further consideration be given to mechanisms to include natural gas within the RET.

Recommendation 3

That air sourced heat pumps be removed from the RET scheme.

Recommendation 4

That incentives be provided through the RET for geothermal energy providers based on the provider's capacity to meet criteria to consistently provide baseload power.

Recommendation 5

That an independent review be conducted to report on the diversity of renewable energy access to the RET and the cost effectiveness versus environmental impact of this access.

Recommendation 6

That the CPRS and RET bills be decoupled.

Senator Nick Xenophon