The Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

By email to: economics.sen@aph.gov.au

RE: Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill

Introduction

Moreland Energy Foundation limited (MEFL) welcomes the opportunity to provide comment to the *Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and a related bill*, conducted by the Senate Economics Committee (the Committee). MEFL welcomes the expansion of the Renewable Energy Target to 20% by 2020 and urges the Committee to consider the concerns expressed in this submission to ensure this target is met.

MEFL is an innovative not-for-profit organisation established by the City of Moreland in 2001 to reduce greenhouse emissions. MEFL works within and beyond the Moreland community to implement a range of energy efficiency and greenhouse gas abatement programs, including behaviour change programs, research and demonstration projects and advice and information services. MEFL also delivers a suite of training and capacity building services for local government, the building and consultancy industries, sustainability practitioners and tradespersons, and has delivered various tailored training programs for clients including the EPA Victoria, ICLEI, Toyota and others.

Based on our expertise in this field, MEFL has been engaged to deliver a range of consultancy projects for all levels of government. MEFL is currently developing a number of large-scale demonstration, engagement and enterprise projects as part of the Moreland Solar City initiative, a partnership with the City of Moreland, Victorian Government and Commonwealth Government under the federal Solar Cities project.

Context

MEFL is highly concerned by the new Solar Credits Scheme, in particular the 'Solar Multiplier', and strongly believe that the Solar Multiplier is a design flaw in the draft RET legislation. We believe it will have a negative outcome with respect to the uptake of solar PV in Australia and will compromise the integrity of the Renewable Energy Target overall.

The Solar Credits scheme, as designed, will directly result in the dilution of the renewable energy target via the creation 'phantom RECs'. For all other renewable energy sources, 1 REC is equal to 1 MWh of renewable electricity; however, under the solar multiplier, this will not be true for RECs from slam-scale solar PV and other small-scale renewable energy technologies.

This issue is in fact acknowledged in the Exposure Draft of the Renewable Energy (Electricity) Amendment Bill 2008 (the Bill) which states:

> *(4) For the purposes of this Act, a certificate created in accordance with the regulations as mentioned in subsection (2) has a value of 1 MWh (even though the certificate <u>does not actually represent 1 MWh</u>).*[1]

In effect, the 5-times solar multiplier results in only one-in-five RECs created under the solar multiplier representing 1 MWh of renewable electricity, and the remaining four-in-five being phantom RECs, not representing any actual renewable electricity (i.e. 'phantom' RECs).

However, to the market, these RECs will appear as any other REC; they will be traded and surrendered as though they were equivalent to 1 MWh of renewable electricity. As a result, the target is compromised by their very existence – the more 'phantom' RECs in the market the more the target is diluted and hence the greater the threat to the integrity of the renewable energy target.

SGUs in the RECs market

It is important to stress that the contribution of small scale renewable energy to the RECs market is not insignificant and that it is constantly rising. In 2008, 4.6% of the total number of RECs registered in the REC registry were generated from either solar or wind SGUs. If the suggested multiplier would have been in place in 2008 those RECs would have accounted for above 19% of the total REC pool, resulting in 15.5% of all RECs created not representing any actual renewable energy generation.

When considering the significant increase in the uptake in solar PV in the last 18 months, demonstrated by the below graph showing the uptake of the federal solar rebate, this issue is only going to compound in coming years with a greater penetration of roof-top solar.

[1] Page 4, *Renewable Energy (Electricity) Amendment Bill 2008*, Exposure Draft,

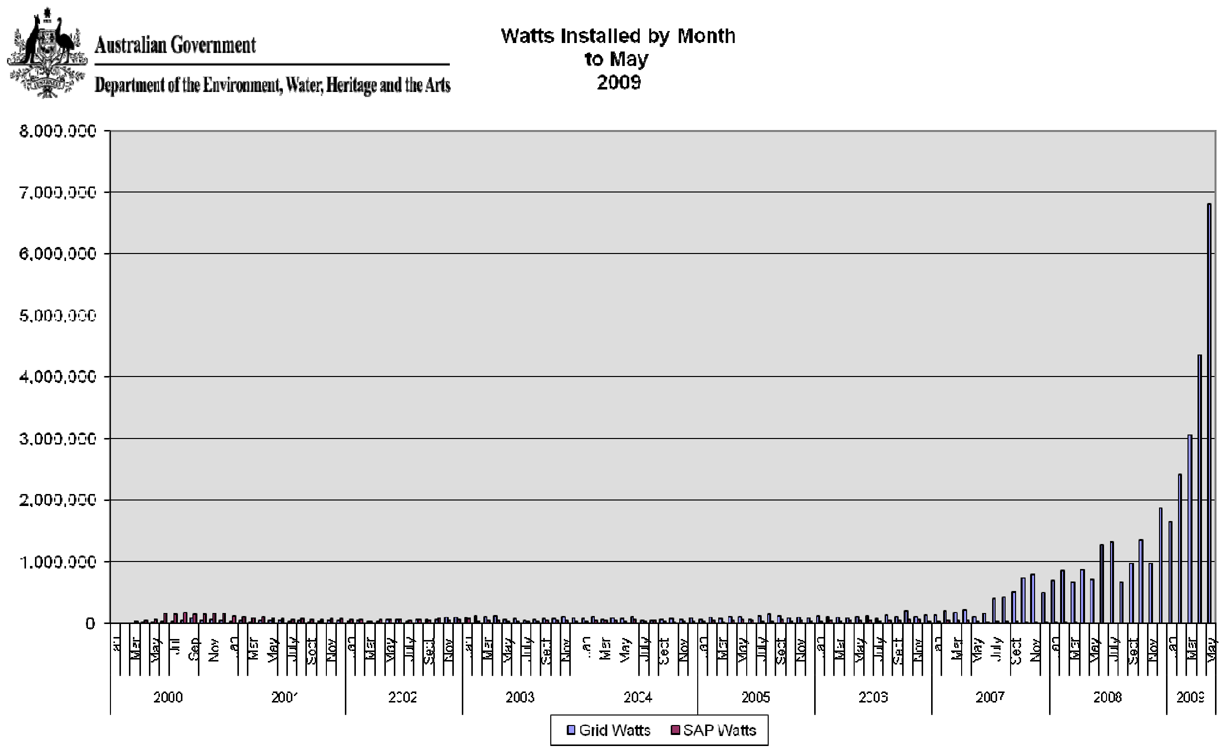


FIGURE 1: Uptake of Solar PV under various Federal Government programs

Such trend is reflected in the quantity of RECs claimed from SGUs over the last 8 years. The exponential growth is mirrored in the following graph depicting the number of RECs created from SGUs as a percentage of the total RECs generated in that year:

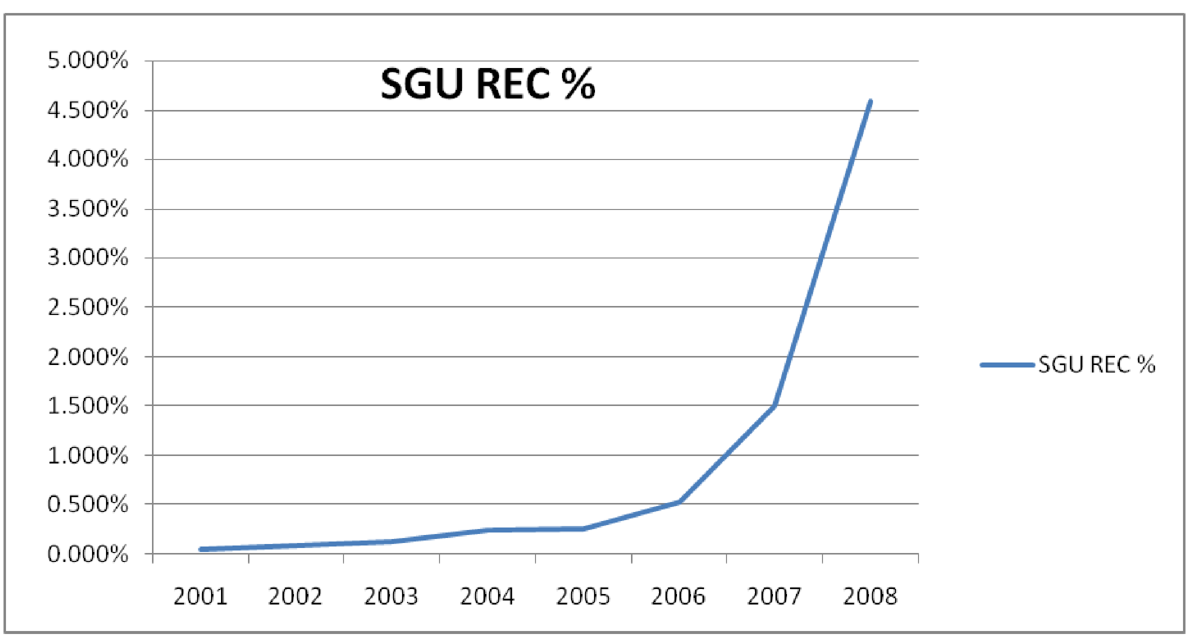


FIGURE 2: Uptake of Solar PV under various Federal Government programs

This implies that the 15.5% shortfall in 2008, were a solar multiplier to be in place, may be dwarfed in coming years with an increasing uptake of solar, with the diluted target potentially making up as much as 50% of the actual Renewable Energy Target in the future.

Fixing the flaws

As an interim step, MEFL urges the Committee to recommend changes to the RET legislation to fix the above flaws. This can be achieved by adjusting the stipulated annual targets in line with additional RECs created by the solar multiplier, effectively cancelling out the additional 'phantom RECs' in the market and retaining the integrity of the target.

Whilst this will address the problem of a renewable energy shortfall under the RET, it does not however address the fundamental problem of the proposed RET preventing small scale renewable energy investors from achieving additionality in the renewable energy market. This can only be achieved by the maintenance of a Solar Homes & Communities Plan-style rebate (exclusive from the eligibility for RECs) as a transitionary measure to a longer term policy mechanism to drive small scale renewable energy.

Ultimately, to ensure continued incentive for individuals to install renewable energy and community support for Government policies on renewable energy, it is essential that the government provide a long-term incentive for small scale renewable energy which doesn't dilute the national target and ensures that individual action in this area actually leads to an increase in renewable energy installed in Australia.

Alternative policies

There is little doubt that the main motivation of most people installing small-scale renewable energy generators is to increase the quantity of renewable energy installed in Australia for the environmental benefits that it brings. A 2007 survey by the Alternative Technology Association of over 1300 individuals' motivations for installing solar PV SGUs found that 78% cited the desire to have a positive impact on the environment. When considering the motivation of those individuals' installing small-scale solar PV and other SGUs the effect of the solar multiplier in actually reducing the net installed capacity of renewable energy in Australia will almost definitely have the perverse incentive of actually driving down investment in SGUs.

The current inconsistency between state feed-in-tariffs and continuous delays to the Renewable Energy Target further suggests one national scheme should be in place. It is on this basis that MEFL have for some time been advocating for one, nationally consistent feed-in tariff to drive small scale renewable energy across the country. To create a decent incentive for the installation of SGUs, a gross Feed- in Tariff is necessary.

Feed-in tariffs are a proven low-cost mechanism for bringing about large-scale deployment of renewable energy technologies, and such technologies are an essential element in Australia's transition to an increased reliance on renewable energy and a reduction in greenhouse gas emissions. The 'solar multiplier', as outlined above, will completely deny the positive impact a scheme such as a gross feed-in-tariff would have, and will instead reduce the amount of renewable installed in Australia. This has the potential to build significant cynicism across the community with respect to small scale renewable energy technologies and the Government's commitment to the renewable energy industry.

Key message

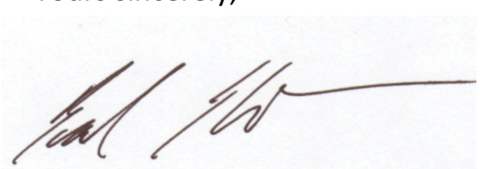
Failure to address the above concerns with the Bill in relation to SGUs will undermine the Government's Renewable Energy Target, provide a disincentive for people wishing to install small-scale renewable energy, and ultimately lead to deep scepticism within a community actively engaged and increasingly willing to undertake individual action to address climate change. MEFL believes the risks from a failure to address the concerns of this policy are great, and urges the Committee to recommend the Bill be amended to require the adjustment of annual targets in order to take into account additional 'phantom REC', as outlined above.

Further, should Australia wish to continue to encourage individuals to install small-scale renewable energy, we urge the Committee to recommend a simplification of the current policy environment for small scale renewable energy and the adoption of a national, consistent gross feed-in tariff.

Further contact

Feel free to contact me directly should you have any questions regarding the content of this submission, via phone on 03-9385 8516 or via email at brad@mefl.com.au

Yours sincerely,



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