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Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
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24th July 2009

To Whom It May Concern

BP Solar welcomes the opportunity to make a submission to the Senate Economics Committee Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009 and related Bills.

BP Solar fully supports the introduction of the Renewable Energy Target (RET) for solar photovoltaic (PV) on the basis that this would be a transitional mechanism ahead of the adoption of a consistent gross national Feed-in Tariff (FiT) scheme open to all sectors of the economy. In our view a national gross FiT is essential to delivering real gains in the solar PV sector and thus enable it to be a significant part of the energy supply mix of Australia.

The RET legislation until then will be the primary deployment mechanism for solar PV systems and its delay in passage, following the demise of Solar Homes and Community Plan and Remote Regional Power Generation Program, has and will continue to impede the uptake of solar PV panels and stall investment in large scale renewable energy projects. Delays beyond October 2009 are certain to result in the swift loss of jobs and closure of many small-to-medium sized businesses that make up the vast majority of the solar PV industry today.

The need for policy certainty for the solar PV industry has never been more pressing given the industries profile today. In the last two years, the solar PV industry has expanded rapidly and now provides employment to some 5,000 people across the nation. A majority of these people are employed in small-to-medium sized enterprises which have invested heavily to capitalise on the marked upsurge in demand. Whilst the industry has demonstrated capacity to withstand the economic downturn, its ability to continue to access finance when the policy framework is uncertain is less apparent and inherently more risky.

Equally, the opportunities for Australia far exceed what the solar PV industry has delivered to date. The key is accessing the dormant commercial rooftops to deliver demonstrable returns to shareholders and investors. We strongly urge the Committee to consider this in the context of your deliberations and equally consider the recommendations that we make in the fullness of this submission.

We would be pleased to provide further evidence and appear before the Committee and equally would be available to follow up with the Committee members outside of this Inquiry.

Please make contact with Andrea Gaffney on 0430 127 514 should you wish for BP Solar to do so.

Yours sincerely
BP Solar Pty Ltd

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A handwritten signature in black ink, appearing to read 'Tony Stocken', written in a cursive style.

Tony Stocken
Regional Manager, Australia

BP Solar Pty Ltd submission to the Senate Economics Committee Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009

Global trends

2008 was a year in which the renewable energy industry achieved many new milestones and continued to attract record levels of investment. In 2008 more than \$120 billion was invested in the industry globally and despite an appreciable drop in investment in the second half down by 23% compared with the first, the industry is proving itself to be very resilient during times of economic hardship.

In response to the global financial crisis a number of national governments announced plans to increase public finance and support for low carbon technologies. These programs are now being implemented with the intent of fast tracking the development of green collar workforce and stimulating private investment in building electricity infrastructure.

Grid-connected solar PV continued to be the fastest growing power generation technology with 70% increase in capacity to 13GW in 2008. This represents a six fold increase in capacity since 2004.

Spain became the market leader installing more than 2.6GW of solar PV, overtaking Germany and installing more than half of the world installation capacity in that year. Other countries that figured prominently in uptake include, South Korea, Japan, US, and Italy.

Utility scale deployment (systems in excess of 200kW) emerged in large numbers in 2008 with 1,800 existing by year-end – up from 1,000 in the year prior. Altogether these plants totalled 3GW representing a tripling in utility scale capacity from 2007.

Global production of solar PV increased by 90% to 6.9GW in 2008 – China usurped Japan to become market leader in production – thus ensuring a steady and consistent supply of product to market.

Globally the cost of installed MW scale solar PV systems is reducing rapidly with cost nearing grid parity in some installations overseas.

Local demand for solar PV

The demand for solar PV panels has been unprecedented in the Australian solar PV industry's more than thirty-year history. The grid market grew by 135% in 2007 and 200% in 2008 which compares to only a modest growth record of 15% for the prior five years to 2007.

The doubling of the Solar Homes and Community Plan (SHCP) rebate from a maximum of \$4k to \$8k in 2007 sparked this period of rapid uptake. Despite the introduction of a means test on the SHCP rebate program in 2008 the growth trajectory has continued unabated.

In the first five months of 2009 the industry installed more product on Australian households than it installed in the twelve months in 2008 and is on track to install approximately 40MW of solar PV by year end, up from 9MW the year prior.

This rapid demand growth has also fuelled the development of the local industry, one which is now intensely competitive and has created thousands of new green collar jobs. Many new entrants have emerged in the last two years, introducing not only a new market dynamism but delivering new innovative business models – buying groups, franchising operations, telemarketing operations in particular – leading to some intense pricing in the local market.

Millions of dollars have also been invested in building the infrastructure of the solar PV industry and in developing industry capacity and capability. The industry has now the necessary foundations from which to extend into other market sectors.

However, the deployment of solar PV relies heavily on supportive Government programs with an estimated 90% of installs underpinned by the Federal Government programs. The end of two key programs, the Solar Homes and Communities Plan (SHCP) and the Renewable Remote Power Generation Program (RRPGP), and the delay to the RET, has disrupted the industry significantly.

The following focuses on the importance of these two programs:

Solar Homes and Community Plan

The Federal Government's investment in developing a grid-connected solar PV market and industry via the SHCP rebate programme has been the catalyst for remarkable change for the industry and has singularly been responsible for bringing forward record levels of demand for solar PV products and systems.

Without the \$700 million rebate investment from the Federal Government, the industry would be significantly smaller and the industry investment profile less substantial. However, the programme clearly became overheated, a hallmark of its success and the public endorsement and support of solar PV technology.

Whilst the termination of this programme was expected by most players sometime late in June, there was also an expectation that there would be a smooth transition to the RET, a matter of weeks at worst.

The delay in the passage of this key legislation is not without consequence, as the industry is left operating in a policy vacuum and dealing with ambiguous circumstances in which to sell product.

Consequence:

- The industry is finding it difficult to sell systems as they are left without any assistance to offset the upfront cost of a system and equally, the number of inquiries has reduced dramatically.
- Some installers are busy dealing with the backlog of demand created through SHCP but this is not universal. Many of the smaller players will face an uncertain future if they cannot start banking new orders.

Renewable Remote Power Generation Program (RRPGP) – Off-grid market

This program has supported deployment of renewable energy power generation systems that displace fossil fuel generating system by providing a 50% capital subsidy.

It has been pivotal to encouraging investment in renewable energy including solar PV standalone systems in remote and regional parts of Australia. The costs of solar PV systems in the off-grid market are more expensive than in the grid market, a function of the size of the systems deployed and the higher costs associated with balance of system functionality (including batteries). Thus, the subsidy support provided via RRPGP has been essential in providing a financial incentive to drive uptake in these markets.

The program's funds have been fully allocated (aside from WA) and without additional funding or a replacement program, demand for renewable energy in the off-grid market will be greatly diminished:

Consequence:

- Solar PV system deployment unlikely or system size reduced significantly
- The market will revert to diesel-based generation, increasing emissions and ongoing fuel costs
- Major effects on solar PV industry employment in rural and remote regions and Australian manufacturers of off grid inverters and component parts.

The Renewable Energy Target

BP Solar supports the introduction of an expanded RET legislation to enable the deployment of a diverse range of low carbon technologies into the energy mix until such time as they can compete under a fully priced carbon economy.

However, BP Solar believes that targets per se will be insufficient for certain technologies like solar PV to drive uptake, and deploy them at scale to make them cheaper and competitive in the near term. Government intervention in markets is necessary and justified to overcome market failures and barriers that mask the true value of low carbon technologies.

The RET's Solar Credits scheme goes some way in attempting to do this for solar PV but is limited for a number of reasons.

BP Solar's issues with the current RET legislation:

1.5kW cap on Solar Credits is too low. Why?

The level of support as proposed under the RET for solar PV will stymie growth prospects relative to the rest of the global industry by continuing to encourage deployment of small domestic-sized systems with the most cost effective system option being 1.5kW.

Whilst acknowledging that the cap of 1.5kW is greater than the industry average today of 1.2kW, it will not enable the industry to gain the economies of scale which will be required to make the technology more competitive. As well, BP Solar believes the industry average system size only stands at 1.2kW as a direct result of the SHCP rebate being increased from \$4 to \$8/watt for a maximum of 1000 watts in 2008, making the one kilowatt system size the most cost-effective.

Solar PV is a technology that can be seamlessly built into our urban environments and deployed at scale in our industrial precincts and on commercial rooftops. There is latent demand in this sector which, with appropriate incentives, the solar PV industry could capture and leverage off to radically transform the Australian solar PV sector.

Very few distribution centre or supermarket rooftop owners would invest in a small 1.5kW system, typically 9 panels, but many more could and would if the cap were shifted to 10kW.

BP Solar is unclear as to how the cap of 1.5kW was determined and equally advocates that the cap size be shifted to 10kW for a number of reasons:

- Consistency with several state FITs and NEM definition for embedded generation using a single phase inverter.
- Will enable industry to capitalise on latent demand in commercial and industrial sector.
- Will provide some level of support in off-grid market (in absence of a further funding commitment to RRP GP) where system sizes are typically 5-10kW (but note a larger multiplier than five-times would be required to provide the equivalent of a 50% capital subsidy which has driven the remote, off-grid market).
- Would ensure a material amount of energy is generated providing the possibility of surplus export to the grid in domestic installations

**→ Recommendation 1:
Increase the cap size under Solar Credits from 1.5kW to 10kW for solar PV systems in urban and remote areas.**

Phantom RECs and REC pricing

Unlike SHCP, the RET Solar Credits scheme is neither restricted to owner-occupied residential dwellings nor is Solar Credits means-tested. This will open up new markets for solar businesses, such as businesses (large and small), households earning over \$100k, property developers, property investors, etc.

It is questionable whether these new markets will offset any reduction in demand experienced due to a change from SHCP fixed \$8k rebate to a REC-based arrangement (which ultimately will deliver a lower and variable subsidy per kW in different areas of Australia).

However, if the cap were increased to 10kW BP Solar believes the market for solar PV would remain strong and for this reason believe that the number of phantom REC's created from solar PV purchases will be material.

BP Solar's estimate of the demand profile for solar PV, would suggest there will be approximately 6% of phantom RECs associated with the Solar Credits scheme.

BP Solar supports the RET Solar Credits but believes that it would thus be appropriate to recycle the phantom RECs created under this scheme so that the integrity of the 45,000GWh is preserved, ultimately providing the opportunity to deploy more renewable energy (SHW, wind, solar PV, hydro) rather than less.

→ **Recommendation 2:**
Add back the phantom RECs created from the Solar Credits scheme

Delinking RET from CPRS

BP Solar fully supports the introduction of both the RET and the CPRS but does not support the linking of these two pieces of legislation through the proposed treatment of trade-exposed, energy-intensive industries. Treatment of EITEs should be dealt with through the CPRS and thus maximise the likelihood that both important pieces of legislation can be passed through Parliament swiftly.

→ **Recommendation 3:**
Delink the RET from the CPRS Bill.

Gross FIT – The Key

BP Solar maintains that net FITs (now supported by most state governments) provide a muted investment signal to market which will be insufficient to build steady growth or underpin industry development.

Ultimately, the net FITs rely heavily on complementary Federal Government programs to support local deployment – the Solar Homes and Community Plan in particular. BP Solar has consistently maintained that net FITs cannot sustain a local industry and that in the absence of the SHCP rebate scheme, demand will reduce.

This is what is occurring today across Australia – sales and enquires for solar PV systems have declined since SHCP ended.

The industry and BP Solar have long been calling for the adoption of gross FITs and remain committed to seeking consistent application of this policy mechanism across Australia.

Gross FITs are now enacted in more than 67 countries, 17 more than in 2007. More than 19 European countries have now introduced them and they are being seriously considered by several US states. Only gross FITs will deliver the scale of investment at the pace needed to drive down solar PV investment costs to make it more affordable for the wider community and deliver sustainable green collar jobs growth.

And unlike subsidies they deliver medium to long term certainty and stability in the market place thus enabling investment to occur with greater clarity and longer time horizons.

→ **Recommendation 4:**
Investigate fully the feasibility of Australia adopting a gross national feed-in tariff (FIT) scheme to advance the deployment of solar PV and other renewable technologies, extending the scheme's coverage to the commercial and industrial

sectors. This should include conducting a productivity review into an Australian designed scheme, review and rationalization of existing state FiTs schemes via COAG and consideration of a Federal scheme commencing no later than 2012.

Maintaining industry standards and safety

The solar PV industry has encountered many changes in the policy landscape in the last decade. In the last two years in particular the number of new Government programs and initiatives introduced has hastened rapid development of the industry.

However, the industry needs the support of Government not just in the area of deployment but in ensuring that the appropriate training occurs, appropriate quality control process and procedures are enacted to ensure safety is not compromised nor systems are installed incorrectly.

→ Recommendation 5:

Support the development of an industry roadmap to ensure there is a vision underpinning the industry's development and appropriately crafted set of policies which support the maintenance of industry standards. As well, ensure BCSE/CEC-accreditation is required to take advantage of the Solar Credits scheme.