

[REDACTED]

24 May 2010

Committee Secretary
Senate Standing Committee on Environment, Communications and the Arts
PO Box 6100
Parliament House
Canberra ACT 2600

Via email to: eca.sen@aph.gov.au

Dear Sirs,

Senate Inquiry into the Enhanced Renewable Energy Bills

LMS Generation appreciates the opportunity to provide a submission to the Senate inquiry.

This submission contains LMS's view with regards to the enhanced renewable energy bill. Our submission is highly geared towards issues regarding the banking of small scale Renewable Energy Certificates into the Large Scale Renewable Energy Target, as this is the most pressing issue for LMS stemming from the changes to the Renewable Energy legislation.

I am available to provide any additional information or discuss these issues in further detail on request. LMS again appreciates the opportunity to provide our thoughts on this important issue facing all Australians.

Yours sincerely,

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Introduction

LMS currently owns and operates over 16 embedded renewable power generation facilities located throughout Australia in predominantly rural areas adjacent to regional centres, thus providing distributed base load renewable electricity to regional Australia. These facilities are fuelled by waste gas collected from landfills that would otherwise be released into the atmosphere as a potent greenhouse gas.

As a renewable electricity generator LMS already provides over 4% of Australia's renewable electricity generated RECs. All of our renewable electricity generators are base load meaning they run 24/7 and are embedded in local distribution networks. They therefore reduce loads within the distribution network and save additional infrastructure costs as well as avoiding the significant losses that generators positioned outside the network encounter.

LMS has the potential to bring at least six more embedded renewable energy projects online in the near future. This will help Australia meet its Renewable Energy target of 20% by 2020. The submission below outlines a couple of key concerns LMS has with the changes to the Renewable Energy Legislation. Changes that could ultimately impede Australia reaching the required 20% of electricity generation sourced from renewable energy by 2020.

1. Decrease the banking period available for SRECs

LMS supports the segmentation of the Renewable Energy Target into the Small-scale Renewable Energy Target (SRET) and the Large-scale Renewable Energy Target (LRET). However, we have some reservations about the transition of the existing banked credits into the LRET scheme.

LMS agrees that RECs that are currently banked should be rolled into the LRET. However, further flooding of the REC market could occur by allowing small scale installations to create RECs that will be eligible under LRET up until 31 December 2010.

Under the SRET eligible SRECs will only attract \$40, where as LRECs are expected to attract a much higher price over time. There is a substantial incentive for small scale technology installations to go out and install as many small scale projects before 31 December 2010 to create RECs to be eligible under the LRET. This could severely depress the future price of LRECs which will decrease the economic viability of large scale renewable energy projects into the future. Further delaying the investment in Australia's large scale renewable energy infrastructure.

The previous discussion paper suggested that allowing the creation of bankable RECs up until 31 December 2010 would provide liquidity for the new LRET market. However, modelling has been performed that shows if banking of eligible SRECs was to finish as of 30 June 2010 the LRET market stands to be in oversupply until around 2013/14¹. The period up until 2013/14 would be ample time for new large scale renewable energy projects to come online and provide the extra liquidity needed.

¹ ROAM Consulting, (2010) "Implications of the LRET and SRES modifications to the RET" for *Clean Energy Council*

Ideally banking would stop as of 30 June 2010. However, with this senate inquiry to report on 10 June 2010, June 30 could prove too early. LMS suggests banking to finish on 31 July 2010 to allow ample time for legislative change, without impacting too adversely on the price of future LRECs.

Not only is the price depression an issue with allowing small scale installations a large window to generate as many bankable RECs as possible, it also brings up potential issues about the quality of the projects that will be installed. With installers rushing to bring forward as many projects as possible projects could potentially be poorly installed and regulated and the government could end up with another problem program on its hands.

LMS believes that 31 July 2010 is a reasonable time to cut off the allowance of bankable permits from small scale technologies that will be eligible under LRET. Some small scale installations will be against cutting of banking before 31 December 2010 because this will cause them to suffer cash flow problems, as they may not be able to sell their SRECs immediately.

LMS will concede that with the SRET not starting until 1 January 2011 these small installations may not be able to sell the SRECs until around March or April 2011. However, as the price is fixed and the quantity of SRECs uncapped all SRECs created are effectively riskless collateral that small scale installations could obtain financing from. This financing could be achieved at a very cheap rate given the guarantee that all SRECs will be sold for \$40 at each clearance period, exposing the finance providers to less risk giving them the ability to offer a lower financing rate.

The financing option would result in a discount from the \$40 fixed price. The discount would be minimal, as the current cash rate is only 4.25%. Any short term secured loan therefore would be unlikely to attract much more than 7-8% interest. Giving a price of around \$37, assuming the loan is for a year.

In the past the small scale installations have been more than happy to receive REC prices in the low 30s. Therefore an effective price just below \$40 should not be an issue for one year. The protection of the LRET market (ultimately Australia's large scale renewable energy infrastructure) from being flooded by small scale opportunistic RECs is surely much more significant than SRECs having to be sold at a slight discount in the first year due to having to obtain financing.

2. Removal of Phantom Solar Credits and Heat Pumps

Another concern LMS has is on the issue of allowing phantom solar credits and heat pumps into the renewable energy scheme.

There is benefit in providing small scale solar with incentives to install such technology in households. However; providing REC multiples will potentially distort the actual amount of renewable electricity Australia really produces.

Likewise while LMS can see that heat pumps have environmental benefits and are more efficient than conventional hot water heaters, they do not produce renewable energy. For a heat pump to function it still is a net drawer of electricity from the grid.

Even though heat pumps and phantom solar credits will be categorised under the SRET – the RECs created are not attributable to any renewable electricity generation. If the banking cut-off time is not brought forward phantom solar credits and heat pumps will add to the oversupply problem.

With SRECs being created from processes that do not actually generate renewable electricity there is a possibility that Australia will not meet its 20% renewable electricity target by 2020 because certain technologies that counted towards the 20% target never created the required electricity.