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

24th May 2010

Dear Committee Secretary,

Re: Submission on the Renewable Energy (Electricity) Amendment Bill 2010

Peter Sachs Industries Pty Ltd (PSI) is a proud Australian manufacturer based in Queensland for over 110 years. PSI manufactures the well known Saxon brand of water heaters which are widely regarded as quality long life products. We manufacture electric, solar, heat pump and marine water heaters at our factory in Brisbane.

PSI supports the overall objective of the proposed legislation to make a structural change to the RET to separate large scale and small scale generation into the LRET and SRES markets. However we have serious concerns with the proposed operation of the SRES and how it will impact on a significant number of small businesses that rely on RECS point of sale discounting.

Point of sale discounting is the key element which enables the sale of solar water heaters. This applies particularly to low income households and in replacement situations where the expenditure due to water heater breakdown is unplanned. A RECS point of sale discount allows the product retailer or installer to reduce the upfront cost to the consumer. The retailer or installer can then trade the certificates either by generation or on-sale to a third party REC generator, aggregator or trader to obtain reimbursement for the point of sale discount. This needs to occur in as short a time frame as possible to be effective.

Although the opportunity exists to make a profit or loss on the RECS trade due to the historical fluctuation in certificate prices, retailers and water heater manufacturers who are RECS generators have found that longer term RECS price stability is of far greater

value than trying to optimise a trading position. Over the last few years PSI has entered into short term one to six month duration contracts to hedge against downwards RECS price movements to protect our product dealers and installers ability to advertise fixed point of sale prices for extended periods.

In summary, RECS price stability equates to product price stability which assists advertising and consumer certainty and stimulates sales.

The operation of the optional clearing house model defined in the proposed legislation presents the opportunity for SRECS creators to trade certificates in two very different ways – either through the clearing house or to go to the spot or traded market through third parties.

The primary areas of concern we have are based on the proposed operation of the optional clearing house, the setting of annual targets, the costs of carry and also on maintaining the maximum value of the SREC in the hands of the consumer.

The proposed operation of the clearing house is for certificates to be processed on a “first in first out” basis and that clearance and payment of certificates will occur 28 days after the end of each quarter. The benefit of the clearing house is the fixed SREC price of \$40. However the certainty of the SREC price is diminished due to the uncertainty of the timing of the reimbursement due to the following factors:

1. The proposed regulations will set annual targets for SRES RECS. In attempting to accurately set these annual targets the regulator will have to take into account many complex and unforeseen situations. Since September 2009 there have been two Federal Government solar hot water rebate reductions, a NSW Government solar hot water rebate reduction, a QLD Government Solar Hot Water Program scrapped and a new QLD Solar Hot Water Rebate introduced. The NSW Government introduced a gross feed in tariff for PV installations dramatically increasing uptake of photovoltaic solar panels and the Federal Government Home Insulation Program has been halted. Each one of these program adjustments or policy changes has had, or will have, a profound effect on the solar hot water and solar photovoltaic markets. It is impossible for any manufacturer to forecast 12 month demand in the current market and we believe that the regulator would have an impossible job estimating demand across all deemed technology types.
2. In the event the regulator overestimates the annual target and there are not enough certificates in the clearing house to match demand, the clearing house will be able to create certificates to satisfy demand. PSI believes this provision for the ‘borrowing’ of certificates will satisfactorily address this concern.
3. In the event the regulator underestimates the annual target there will be a surplus of certificates to available demand. Any surplus of certificates left in the clearing house will remain and will not be settled until 28 days after the end of the following quarter. This could continue on for an indefinite number of quarters until supply and demand equalise or until the following year when the target is reset. The cash flow implications in this scenario would render the clearing house too risky for most SREC generators and aggregators and drive them to the spot market which will most certainly be priced down to reflect the oversupply.

4. PSI, as a medium sized manufacturer and supplier to the solar hot water industry would not be able to sustain the potential working capital requirements to fund quarterly (or longer) holdings of SRECS on behalf of our dealers and installers. We would require monthly clearance of certificates through the clearing house to maintain normal cash flows required for normal operations such as funding raw materials purchases and finished stock inventories.

In conclusion, PSI believes the proposed legislation on the operation of the clearing house could have a downward and destabilising effect on SRES REC prices rather than the desired effect of stabilising certificates at or near the \$40 price point.

The most efficient operation of the legislation should be to ensure that the consumer gets the maximum benefit of the fixed SREC price and the RECS point of sale discount is reimbursed as quickly as possible.

PSI proposes that:

1. The clearing house would operate most effectively if it could also bank certificates and enable payment to sellers in the event of an oversupply rather than holding over payment to following periods.
2. **The clearing house should pay out on a monthly basis if it is to be utilised by small to medium sized participants to clear their SRECS whilst liable parties could still meet their obligations on the proposed quarterly basis.**
3. The regulator should be able to revise the SRES target on a quarterly rather than annual basis as circumstances dictate. This would be unforeseen changes to factors affecting the supply of certificates such as changes to government policies or significant take up of other small generation technologies like solar PV.

PSI fully appreciates that other considerations and difficulties exist on the side of the liable parties who must acquire the SRES RECS and who have different timing requirements. However, we believe our concerns are valid for the small scale renewable energy sector and trust our comments are taken in the spirit of improving and developing healthy industry and energy policies.

Yours faithfully,

PETER SACHS INDUSTRIES PTY LTD

A handwritten signature in black ink, appearing to be 'MS', written over a light blue horizontal line.

Michael Sachs

Director