



1 June 2010

Committee Secretary  
Senate Standing Committee on Environment, Communications and the Arts  
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CANBERRA ACT 2600

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**Response to Question on Notice – Senate inquiry into the *Renewable Energy (Electricity) Amendment Bill 2010***

During the Energy Supply Association of Australia's (esaa) inquiry appearance on 28 May 2010 the Committee requested the Association provide any commentary on the findings of the report by McLennan Magasanik Associates (MMA) to the Department of Climate Change and Energy Efficiency on *Impacts of Changes to the Design of the Expanded Renewable Energy Target* released on 27 May 2010. The Committee specifically requested esaa's views on the estimates of the Small Scale Renewable Scheme (SRES) liability in terms of providing greater certainty to industry.

The Association has subsequently reviewed the MMA report and offers the following comments. The proposed changes to the Renewable Energy Target (RET) announced by the Government on 26 February 2010 effectively split the previous RET of 45,000GWh into two components. The Large-Scale RET (LRET) was set at 4000GWh less than the previous RET with the SRES expected to make up this difference. Any shortfall in the overall 45,000GWh target identified following a review in 2015 will be addressed by applying an uplift to the annual LRET targets

The MMA analysis indicates that by 2020 'the LRET is expected to contribute 39,000 GWh and the SRES 11,000 GWh. The level of renewable energy generation as a proportion of total electricity generation is expected to be around 22% in 2020'<sup>1</sup>.

In relation to the SRES, the MMA report indicates that the number of Small-scale Renewable Energy Certificates (SRECs) created under the scheme declines over the period to 2015 as the current multiplier applying to solar photovoltaic systems phases out and other rebates associated with small scale hot water systems expire. The rate of certificate creation then remains largely constant in the period to 2030.

esaa considers that while the MMA report is of some use as an informed estimate of the take-up of SRECs, the economic model is based on a set of assumptions which invariably will be subject to change over the course of the next two decades and as such form one view of a possible set of outcomes. There are likely to be a range of

other factors that could impact the uptake of small scale systems, many of which are noted in the MMA report itself:

'The projected uptake and hence certificate creation for small scale systems should be interpreted with care. The estimation procedure is largely based on rational economic decisions and may not fully consider other factors that may influence uptake. The predictions are sensitive to capital cost reductions, which are highly uncertain as it is driven by global supply and demand factors. The predictions also do not consider product availability and limitations on capacity to meet installation demand.'<sup>2</sup>

In addition to the above, MMA note uptake will also be influenced by other factors such as the various differing rebates and other incentives offered across jurisdictions as well as building code regulations, each of which may change during the period to 2020.

Further, the results of the MMA analysis indicate that the SRES liability could be significantly higher than might have originally been envisaged. The SRES figure of 11,000GWh in 2020 is just under three times higher than the nominal 4,000GWh assumed at the time of the policy's announcement.

The results of analysis can therefore not be viewed as offering energy retailers the same level of certainty as the Association's preferred approach outlined in its previous submission. This involved proposing legislative amendments capping the SRES or, at the very least, to cap liable entities' potential exposure to the costs of subsidising small-scale technologies, by requiring the Government to underwrite the costs of any SRECs created over and above the cap.

In summary, while esaa welcomes the MMA report and notes its findings, the results do not give the Association cause to alter the substance of its previous submission and we urge the committee to consider recommending capping the SRES liability.

Yours sincerely

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Chief Executive Officer

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<sup>1</sup> MMA (May 2010) 'Impacts of Changes to the Design of the Expanded Renewable Energy Target', pg 19

<sup>2</sup> Ibid pg 24