

9th June 2010



Committee Members

Senate Standing Committee on Environment, Communications and the Arts

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

Dear Committee Members,

Re: Enhanced Renewable Energy Target

We write concerning the proposed changes to the Enhanced Renewable Energy Target (eRET) legislation, currently before the Senate Standing Committee on Environment, Communications and the Arts.

eRET

MEFL and ATA have been consistent contributors to all of the policy reviews relating to the Renewable Energy Target (RET) over the past three years.

Having been initially opposed to the design of the Solar Credits Scheme in late 2008, and having forecasted the impact of a Renewable Energy Certificate (REC) oversupply from small solar photovoltaic (PV) and solar hot water systems in early 2009, we are delighted to see the Government's proposal to split the small and large renewable energy markets, which will see a re-invigoration of the large-scale renewable energy industry as well as increased certainty and confidence to small-scale renewable energy proponents.

We believe that the integrity of the RET is compromised by the existence of the Solar Credits multiplier and the creation of 'phantom RECs' under the existing RET arrangements. Further, the dilution of the REC market via an influx of RECs from small-scale renewable energy technologies such as solar hot water and solar electricity has led to a collapse in the REC price and a shelving of large-scale renewable energy projects around the country.

Proposal to cap the SRES

MEFL and ATA understand that proposals are being considered to place a cap on the SRES – potentially limited to 4,000 GWh by the year 2020. We are extremely concerned by, and would be opposed, to any proposals to cap the SRES in this manner.

The impact of capping the SRES, to potentially a level that is below current uptake rates, means that once again consumers cannot achieve the environmental benefit they are seeking from their investment. This will also likely create a significant backlog of SREC applications over the first few years of the new scheme.

We believe capping the SRES to be unnecessary with respect to the risk of cost blow outs from the small scale market. As evidenced by the recent MMA modeling, the cost of the proposed changes

to the Renewable Energy Target legislation to residential electricity consumers (with an uncapped SRES) is approximately \$2.10 per annum from 2011 to 2015; and \$2.50 per annum from 2016 to 2020. For all customers, the total annual increase per megawatt hour is between \$0.26 and \$0.31 over the decade¹.

Additional analysis undertaken by Roam Consulting shows that, even in a scenario where “the installation rate of SWH and SGUs under the SRES is very high” the cost to consumers of an uncapped SRES would be a maximum of 2.0% at its peak, with an average cost far less than that: as low as 0.1% in the latter stages of the scheme².

Further, placing a low cap on the SRES could lead to significant uncertainty in the small-scale renewable energy industry. An annual cap, which would seem likely if the concerns are around annual increases in electricity bills, would likely create a situation where proponents will be rushing to get projects up and panels installed early in the year before the cap is reached, followed by a drop-off towards the latter part of the year if the cap is exceeded, leading to annual ‘boom-and-bust’ cycles for the small-scale renewable energy industry.

If the cap were to be applied across the length of the scheme, a ‘boom-and-bust’ cycle would be set up over a long timeframe, with a rush as the cap is approached and a sharp decline in projects and consequent loss of jobs after the cap is exceeded.

Given the negligible cost of the proposed RET changes highlighted in these reports, the risks of boom-and-bust cycles in the event of a cap, and the significant benefits to be gained from the adoption of the proposed changes as highlighted above, we strongly believe that introducing a cap to the SRES is unnecessary and potentially significantly detrimental.

Should a cap on the SRES be deemed desirable, MEFL and ATA would only support a cap high enough to allow for the current levels of uptake (initially somewhere between 6 and 8 million RECs) plus some room for moderate expansion, bearing in mind that SRES costs will be reduced in any event by:

- the reduction in the Solar Credits multiplier from 2012; and
- the fixed SREC price (\$40) being below the likely REC price under the LRET scheme.

We call for any capping of the SRES scheme to be set at a level consistent with current and projected uptake rates, with an allowance for some expansion beyond current rates or predictions in order to provide sufficient certainty to the small-scale renewable energy industry.

Beyond these issues, MEFL and ATA strongly support the changes proposed under the proposed eRET legislation and we urge the Committee to recommend its passing with haste, in order to ensure the benefits of separating the mechanisms for small and large scale technologies are obtained as soon as possible.

¹ McLennan Magasanik Associates (2010) *Impacts of Changes to the Design of the Expanded Renewable Energy Target*. Melbourne, Australia.

² Roam Consulting (2010) *Implications of the LRET and SRES modifications to the RET*, report to the Clean Energy Council, March 2010

Feel free to contact either Brad Shone (MEFL) or Damien Moyse (ATA) should you have any queries regarding the content of this letter.

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MEFL

Moreland Energy Foundation Limited (MEFL) is an innovative not-for-profit organisation established by the City of Moreland in 2000 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 behavior change programs, research and demonstration projects and advice and information services.

ATA

The Alternative Technology Association (ATA) is a community-based not-for-profit organisation representing consumers in the renewable energy marketplace. The organisation was established in 1980 to empower our community to develop and share sustainable solutions and to promote the uptake of sustainable technologies. The organisation currently provides service to over 5,500 members nationally, who are actively engaged with small scale renewable energy, energy efficiency and the national electricity market.
