

7 June 2010

Senate Standing Committee on Environment, Communications and the Arts  
GPO Box 6100  
Parliament House  
Canberra ACT 2600  
via email: [eca.sen@aph.gov.au](mailto:eca.sen@aph.gov.au)

Dear Committee,

**Re: Senate Committee Inquiry into Renewable Energy (Electricity) Amendment Bill 2010**

DCM Solar Pty Ltd ("DCM") welcomes the opportunity to comment on the "Inquiry into the Renewable Energy (Electricity) Amendment Bill 2010 (Provisions) and related Bills".

We wish to draw the attention of the Committee to the assumptions behind the Government commissioned modelling of small-scale solar installations in the Australian market over the next two years. The MMA modelling recently presented to the Department of Climate Change and Energy Efficiency indicates that the target for SREC's will be too low and cause a surplus of SREC's.

In summary, this report forecasts 65,000 installs over the next 12 months. Our customer pipeline and installation schedule exceeds this target and it is important that the Government considers the implications of a low target on the industry. DCM alone has in excess of 50,000 x 1.5 kW systems plus 600 x 10 kW systems planned for installation over the next 12 months. This is the equivalent of 81 MW.

We are concerned that the current drafting of the Bill will stifle the current momentum that is building in the Solar PV market. Specifically, we have identified two main issues within the draft Bill:

1. Setting an appropriate SRECs Target;

Having a target of any kind has the risk of capping the markets full potential. If a target is set and the target is too low, SREC's will not clear and uncertain cash flow will cripple solar installers as they will be unable to pay for systems and OPEX. Our forecasts identify this as a likely outcome if a target is based on the MMA modelling.

2. Surrender Process and Timing of cash flow;

If the SREC's are not cleared progressively as the current MRET scheme allows, installers will need to carry this cost until the SREC's are converted to cash and at best this cost will be passed to the consumer. However, given that solar systems must be purchased in advance and labour paid for within seven days of installation, many installers will be unable to carry this cost and will be forced to exit the market.

This submission will consider these two items in detail.

## **Background to DCM**

DCM is a renewable energy systems design, supply and integration specialist company focused on the delivery of sustainable infrastructure to senior Australians, who are predominantly pensioners, with an average age of 80 years. The Solar Homes and Communities Program (SHCP) was a successful initiative that allowed DCM to install over 7,000 installs in retirement villages in its first year. DCM is also recognised by the NSW Government as a leading solar installer and was recently awarded one of the largest solar rooftop installations in the Southern hemisphere at the Sydney Theatre Company roof-Walsh Bay, Sydney.

DCM is committed to the retirement village sector. Solar PV is an important cost saving measure for these residents that further minimises the impact of energy poverty which is impeding a large majority of Australians due to rising energy costs. To date, DCM has absorbed all costs for our customers ensuring all our customers are able to receive a free PV system, irrespective of their situation. This has included metering, difficult installations, embedded networks and high-rise work. A recent survey by the Retirement Village Association scored our installation program, customer service and quality an average of 9.5/10. Quality and safety is very important to us and our record to date has been exceptional. Our retirement village clients report include a reduction in electricity bills from \$250 per quarter to \$17 per quarter. This is significant cash boost to pensioners.

DCM is now planning to install solar for no upfront cost to the balance of the Retirement Village Industry (approximately 100,000 installations over the next 24mths). We have been endorsed by the industry and commenced our deployment under this model. Our current installation capacity is 500/week and we are growing this capacity at a rate of 50 installations per week until we reach our target of 2000 installations per week. In order to achieve this goal we have signed an exclusive distribution arrangement with a quality manufacturer of solar panels to ensure that we can continue to deliver solar for no cost to pensioners.

### **1. Setting an appropriate RECs Target**

Over the past nine months DCM has installed over 4000 homes in retirement villages with solar and is currently installing at the rate of 500 homes per week. We have 35 office staff and 110 installers nationally. Over the next 12 months we intend to increase the office staff and engage 300 installers nationally. We are building to 1500 X 1.5 kW systems plus 4 X 10 kW systems per week by January 2011.

Additionally, we have built sales via other channels which will generate significant volumes above these retirement village targets. For instance, we are currently installing 380 kW at one location (the Sydney Theatre Company finger wharf on Sydney Harbour) under contract to the New South Wales Government. DCM is also planning to install several hundred 10kW systems on community centres and clubs around Australia.

Over the next 24 months we forecast we will have installed a minimum of 150MW in retirement villages and aged care facilities. We have negotiated supply contracts for this volume and sales channels contracted are worth \$250+ million. In order to meet these targets we have and intend to continue to commit significant investment; for example, our exclusive supplier has invested over USD200M in upgrading manufacturing facilities.

It is vital that the size of the market is considered in setting an appropriate target.

As you can see our installation program is over 100% greater than current government modelling which indicates that the minimum cap (if a cap is to be applied) needs to be significantly higher than perhaps currently being considered.

DCM is concerned that a low target could lead to an oversupply of SREC's further pushing out the payment cycle. The delayed payment of REC income to fund new panel acquisitions will limit the installation of PV and effectively capping the growth of solar and will cause significant and potentially permanent damage to the emerging Australian Solar Industry.

Our preferred option is to remove the target completely and allocate all SREC's evenly to liable entities. The next best alternative is to set a high enough target to ensure that the deployment of solar PV is not constrained artificially. To support this approach, the mechanisms could also have the ability to borrow from future years targets.

## **2. Surrender Process and Timing of cash flow**

As an installer of solar PV systems, DCM remains concerned that the proposed quarterly surrender of RECs for small-scale technology certificates and the timing of RECs payments will provide another barrier for the uptake of small scale solar generators. The PV installation market relies on regular REC income flow to pay for equipment and labour. It is critical for our business and the industry in general that REC's can be liquidated quickly to pay for more stock. Under the Solar Credits scheme, we are able to execute our model, but our payment terms with our supplier are based on the current timeframe for processing REC's. The current drafting of the legislation indicates that the liable entities may only pay for SREC's quarterly. If there are surplus SREC's, they could sit in the account for at least another quarter waiting to be cleared.

The solar PV market in Australia is a cottage industry, with most installers typically being 'mums and dads'. The typical capital payment term for these installers is 30 days, with the installers having stock in the warehouse for two weeks. This gives the installer two weeks to install the system, register the RECs and sell to the market. These installers require immediate cash flow to pay for overheads and the cost of living.

For large installers, such as DCM Solar, payment terms for vendors are longer; however, the start date for liability generally starts from Freight on Board. The process and time frame is as follows:

1. Order equipment and pay 70% deposit (Day 1);
2. Shipping (Day 21);
3. Customs clearance (Day 24);
4. Warehousing, testing and packing (Day 32);
5. Logistics to site and installation of the systems (Day 44);
6. REC creation processes (Day 59);
7. Payment of 30% balance required (Day 60); and
8. REC sales and settlement (Day 68 to 73).

This brings the total to around 73 days under the current trading mechanism. Standard trading terms for large customers are 45 to 60 days, so managing this payment cycle is already a challenge. Any further delays would see the exit of most solar importers or significant price increases. Financing of payment terms directly translates into increased interest charges and increased end prices to consumers. This will decrease the attractiveness and viability of solar as a distributed sustainable energy investment.

The examples below illustrate how critical timing of cash flow is for both small and large installers.

#### A 'small contractor' installer

Assuming these installers are able to purchase systems for \$8,000 each, and install on average three 1.5kW systems per week, the system will be sold at \$3,000 to the customer with approximately \$6,280 subsidised by the RECs. This provides a margin of \$1,280 per install. With a 30-day payment term from their supplier, the cash flow for a typical installer is as follows:

Day	Cash flow (\$)	Cumulative Cash Position (\$)
1 (purchase date)	0	0
14 (installation)	+9,000	+9,000
15 (salary payment – proportional for the week)	3550	+5,450
28 (REC creation)	0	+5,450
28 (sell RECs)	+18,840	+24,290
30 (pay supplier)	-24,000	+290
31-91 (interest incurred for financing - average)	-225	-18,775
31-92 (cleared RECs)	+18,840	+65

If the SRECs are created in 2 weeks, the 'small contractor' installers are able to pay the cost of capital within the 30-day payment term. However, if the SRECs are surrendered quarterly, the cost of financing for a small installer becomes \$18,775 per week, with the business making a gross profit of \$65 for one week. The gross profit will not cover the remaining operating expenditure for the business resulting in a loss for the year.

For the quarterly SREC payment, this would mean an equipment financing facility of \$244,000 will need to be established for the business, which in turn will be secured against the family home of the "small contractor" installer.

The small installer will not be able to increase their sales price in order to stay competitive with the large installers. Quarterly payment for RECs will effectively price small installers out of the market.

#### A large installation business

Assuming large installers are able to purchase systems for \$7000 and install on average one hundred 1.5kW systems per week, with equipment financing at a rate of 10% p.a., the cash flow is as follows:

Day	Cash flow (\$)	Cumulative Cash Position (\$)
1 (order and pay 70% deposit)	-490,000 -	49,0000
15 (salary payment – proportional for the week)	-59,000 -	549,000
21 (shipping)	0	549,000
44 (installation)	300,000 -	249,000
59 (REC creation)	0	-249,000
65 (pay supplier remaining 30%)	-210,000	-459,000
74 (pay installation cost)	-70,000 -	529,000
61-140 (interest incurred for financing - average)	-15,630	-544,630
60-140 (cleared RECs)	628,000	83,370

If the SRECs are created within 2 weeks, the business will cover the costs within the 60-day payment term. However, if the SRECs are surrendered quarterly over a 90-day period, the increased cost of financing for a large installer will be \$7.2m over 3 months.

**If the target is too low and SREC's are not cleared in the quarter, the system breaks down for both small and the large installation companies.**

Assuming that the market share for small and large installers is 40% and 60% respectively, this would mean for low, medium and high installation scenarios, a combined equipment financing requirement of:

	50MW of installation	100MW of installation*	150MW of installation
Small Installer	\$19.04m	\$38.30m	\$57.34m
Large Installer	\$28.80m	\$57.60m	\$86.40m
Combined	\$47.84m	\$95.90m	\$143.74m

Any delays to liquidate REC's will preclude all companies from securing competitive trading terms and Australia will not be internationally competitive. Renewable Energy technologies already face a number of barriers such as competition for consumer dollars, small scale economies and cost barriers. As illustrated above, having a quarterly surrender will not align with existing business requirements for installers, both large and small, and would result in critical cash flow issues. Any cash flow constraints will negatively impact small and large companies alike.

As an example of the importance of liquidity, DCM Solar understands that over 45,000 customers are yet to be installed under the SHCP rebate program. The rate of installations has been increasing, but the delays in rebate payments from the government are severely restricting the potential rate of installation under this program. Under the current Solar Credits scheme, REC creation takes a matter of days. Therefore, many installers have opted to install under Solar Credits to build up cash flow, rather than wait for the more profitable SHCP rebate.

DCM's view is that the payment of SRECs through the clearing house should be on submission. Therefore, the Government will carry the cost between paying creators of SREC's on submission and receiving payment by the liable parties. Alternatively, liable entities could be required to purchase SREC's more regularly.

### **Ability to trade outside the Clearing House**

The Bill provides that creators and owners of small-scale technology certificates may apply to enter a certificate into the "clearing house transfer list" as soon as a certificate is created. Certificates will be sold to liable entities on a first in first out basis.

DCM supports the flexibility of trading outside the clearing house for the following reasons:

1. It will allow long-term SREC purchase agreements to be structured and allow more certainty for REC suppliers as well as liable parties;
2. It will allow a more regular cash flow to SREC suppliers via income from bilateral transactions; and
3. Established secondary markets allow the formation of derivative instruments that improve cash flow and tailored risk mitigation strategies to liable parties and REC suppliers.

## **New South Wales Gross Feed in Tariff**

We also need to draw to the attention of the Committee that it is highly likely that the gross feed in tariff in New South Wales will be extended, given this is the platform of the New South Wales opposition and given its leadership in the polls coming up to an election. Not only will this significantly increase domestic solar installations but the opposition has also over the weekend announced that it will support schools in New South Wales installing larger systems than the current maximum 10 kW and allow those schools to receive gross feed in tariff. This alone could generate an additional 100 MW over the next two years.

DCM looks forward to the Committee's report. We also welcome the opportunity to meet in person to review our market volumes and provide an overview of other installers and their planned volumes to correctly establish the size of the small scale solar market over the next two years.

Yours sincerely



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