Coalition Senators' Additional Comments

Coalition Senators accept the intent of this legislation and are sympathetic to the calls for it to be dealt with during the remaining sittings of the winter session. We appreciate the need to provide greater investment certainty to the renewable energy sectors targeted.

However, we are also mindful of warnings that have been made in this sector previously and wish to see risks that still exist under these Bills addressed prior to their passage. We remember the risk of investment uncertainty for some major projects being raised at the time these issues were last considered, just last year. And we recall the problems of boom-bust cycles for some renewable sectors, especially solar photovoltaics, which have flowed from various government incentives. We have since seen the troubles caused by mismanagement of a demand driven scheme, in home insulation.

It is important that the opportunity presented by the debate of these Bills to heed warning calls from industry and others is taken, so that mistakes of the past are not repeated in this legislation.

Uncapped liability under the Small-scale Renewable Energy Scheme (SRES)

The majority report notes that the possible risk associated with establishing an uncapped SRES liability was an issue commonly raised by witnesses and submitters. Coalition Senators once again highlight the extent of concerns about this uncapped liability, as demonstrated by the many companies and industry groups who provided evidence to the inquiry.

A3P:

> Capping the price but not the quantity of small-scale renewable electricity certificates introduces uncertainty into the electricity price for consumers. This problem is compounded in the case of electricity-intensive processes for which electricity makes up a significant proportion of their operating costs. The small-scale portion of the RET should be capped, or removed from the RET altogether.[1]

Alcoa:

> … the SRES portion is an uncapped volume which is a risk placed entirely on large energy users in favour of small scale renewable generators.
>
> Transferring this risk to liable entities significantly reduces their ability to predict RET cost impacts over the life of an investment and therefore may dampen investment activity in electricity intensive activities. This uncapped

1 A3P, *Submission 42*, p. 2.

> impact can be avoided by capping the SRES pool or limiting the exposure of highly electricity intensive EITE activities to the SRES.[2]

The Australian Industry Greenhouse Network:

> The effect of the SRES proposal is to remove all price risk from SRES suppliers and to substantially reduce the price risk faced by LRET suppliers. However, these risks have not been removed from the renewables markets – rather, they have been transferred to liable parties and electricity consumers.[3]

The Energy Supply Association of Australia noted that the risk associated with the uncapped liability of the SRES would add to existing risks in the electricity market:

> One of the issues that the industry I represent faces very substantially, right now, on every front is an enormous amount of risk. It is being put at risk because of delays, because of changes and because of open-ended schemes and, quite frankly, it is very hard to make efficient investment decisions when there is uncontrollable risk.[4]

Hydro Aluminium:

> Key areas that need to be considered in order to ensure the viability of electricity-intense industries such as our aluminium smelter include...A cap on the quantity of SRECs that can be generated or limit the exposure of EITE industries – thus providing certainty to all investors (small-scale renewable, large-scale renewable and electricity users).[5]

TRUenergy:

> Much of the convoluted and complex regulatory mechanics are only necessary to cap the SRES volume/liability each year while avoiding an overall scheme cap. It is understood that this is an attempt to provide liable parties with a degree of certainty over their liability while maintaining a guaranteed subsidy level to suppliers of small renewable technology.
>
> However, this approach fails to achieve either of these objectives, and does so at the expense of simplicity and administrative efficiency.[6]

Coalition Senators are concerned that the risks associated with inaccuracy in estimating the uptake of SRES, driven by a variety of cost factors, impact of subsidies and changes in consumer sentiment, are ultimately borne by electricity consumers. We believe that for the liable entities responsible for purchasing the Small-scale

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2 Alcoa, *Submission 18*, p. 5.

3 Australian Industry Greenhouse Network, *Submission 43*, p. 1.

4 Mr Brad Page, Energy Supply Association of Australia, *Committee Hansard*, 28 May 2010, p. 11.

5 Hydro Aluminium Kurri Kurri Pty Ltd, *Submission 1*, p. 1.

6 TRUenergy, *Submission 28*, p. 1.

Technology Certificates (STCs) created by the SRES the proposed forecasting mechanisms for setting annual responsibilities fail to provide reasonable levels of certainty.

A particular concern for Coalition Senators is that these unlimited liabilities, imposed by the Commonwealth, are actually significantly influenced by the impact of State and Territory policies, as highlighted for example by the Cement Industry Federation:

> Many of the drivers that created falling REC prices within the RET are now likely to put upward pressure on electricity prices for electricity consumers. These drivers include the seemingly endless addition of rebates and feed-in-tariffs offered by multiple Governments in effect competing to support small scale renewable energy generation.
>
> The uncertainty on price caused by this change needs to be addressed through adequate mechanisms that ensure the size of the SRES does not greatly exceed the 4000 GWH target of the SRES. The committee should be mindful of the fact that state government incentives combined with the SRES will as a combined incentive drive the uptake of the SRES.
>
> The CIF has previously recommended to the Australian Government, capping the size of the SRES and note this suggestion has not flowed through to the legislation. In the absence of an actual cap, it will be important to ensure there are adequate policy levers available to the Australian Government to control a blow out in the uptake of the SRES.[7]

Even the Minister for Climate Change, Energy Efficiency and Water, Senator the Hon Penny Wong, acknowledged this problem under questioning in Senate Budget Estimates hearings:

> What you are alluding to is actually a real policy issue, which is that this market is not only guided by what occurs through Commonwealth legislation and market responses; there are a range of other policies that impact upon the market which state or local government can put in place. In an ideal world, you would have simply one policy framework which applied across the country, but the reality is that state governments—and possibly local governments—will have their own views about what additional assistance they want to provide to renewable energy.[8]

While the "ideal world" referred to by Minister Wong may not exist, Coalition Senators are disappointed that more concrete steps have not been taken by this Government to align and coordinate state initiatives and incentives in this policy area. This lack of coordination further exposes all parties, both those creating STCs and those liable for them, to uncertainty. More so, it exposes the scheme to pressure from unpredicted demand levels as a result of state initiatives which either encourage or

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7 Cement Industry Federation, *Submission 14*, p. 3.

8 Senator the Hon Penny Wong, Senate Budget Estimates, *Committee Hansard*, 27 May 2010, p. 14.

discourage participation in the scheme. This compromises the scheme's effectiveness and could lead to a range of undesirable and unanticipated consequences.

Regrettably, there appears to be no easy way to change the proposals in these Bills without shifting the balance of uncertainty from one party to another. Fixed annual caps on the number of STCs that can be generated will, of course, establish a level of uncertainty for those companies creating STCs, with the risk that reaching the cap prior to the end of the year would create a price spike and presumed demand slump until a new year, with a new quota of STCs, commenced.

However, Coalition Senators are nonetheless attracted to the certainty for liable entities that concrete annual caps would establish. Caps would help to limit the extend of undesirable consequences which could otherwise flow from actual demand diverging widely from predicted demand. We also believe that the establishment of such caps would place greater responsibility on the Commonwealth, state and local governments to avoid new policy measures that could create either spikes or slumps in demand in future.

Recommendation 1

That the Government consider a model to release fixed, annual quotas for the next two years capping the size of STCs, with the quota to be announced before the commencement of each year.

Recommendation 2

That these annual quotas be set at levels consistent with an overall generation target for the SRES of achieving 4000 GWh by 2020.

Impact of the Solar Credits Multiplier

Coalition Senators noted the evidence provided concerning the impact of the Solar Credits Multiplier, which is also canvassed in the majority report. Several companies raised concerns that the current impact of the multiplier risked creating an unsustainable boom, which could hurt industry standards and fail to optimise environmental outcomes.

Greenbank Environmental highlighted the impact of past incentives, as well as the emerging impact of the current multiplier:

> Last year, we had 65,000 rebates of $8,000 each through the department of climate change. Do the maths on that and it is quite significant. There is a real possibility that the SRET, being uncapped, will again deliver 65,000 systems into the nation. That will be another pass through to Mr and Mrs Jones and will again drive the price of electricity up.
>
> Currently, in New South Wales, as I said in my submission, there are companies giving away 1.5 kilowatt systems for free. If it continues at this

> rate, we will soon end up with a situation along the lines of the insulation program, which would be a disaster for the renewable energy industry, as it has been for the insulation industry.[9]

The Solar Shop, a potential generator of STCs, emphasised this message that due to the decreasing costs of solar photovoltaic (PV) systems the multiplier was now exposed as being too generous:

> It is unsustainable for the industry to have solar power systems available at no cost to consumers. Solar power systems offered at no or low cost encourage low standards in materials, poor returns on financial and environment investments, and could cause long term damage to the entire industry.
>
> Under the recent Enhanced Renewable Energy Target discussion paper, members of the domestic solar power industry called for a change to the Solar Credits Scheme to ensure the longevity and stability of the industry.[10]

A number of companies joined together to propose to the committee changes to the multiplier, specifically suggesting that there be an increase in the maximum allowable system size from 1.5kW to 3kW, with a commensurate reduction in the size of the multiplier from five to three. Strong evidence was provided to support this proposition.

Conergy:

> And in support of that, Conergy AG is a manufacturer of photovoltaic modules. The price point of production is almost at its lowest position and going forward even in increased volumes you would not see significant price reductions that would allow a three-by multiplier for a three-kilowatt to meet the price point of the system to end up with a free system in that category. It would not happen.[11]

Solar Shop:

> Our proposed change to the multiplier is likely to see an appropriate number of RECs (be it phantom or real) on the market produced from Small Scale Renewable Energy Systems, but see a higher percentage of RECs that are attributed to actual renewable energy. It also has the potential to see larger systems installed which is a better outcome for the consumer and better outcome for the environment. Most importantly it will remove systems being offered at low or no cost to the consumer. This will ensure that the installation standards remain optimised and that the industry can move away from boom-bust cycle, securing the industry, securing jobs and increasing Australia's renewable energy capacity.[12]

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9 Ms Fiona O'Hehir, Greenbank Environmental, *Committee Hansard*, 28 May 2010, p. 46.

10 SolarShop Australia, *Submission 24*, p. 1.

11 Mr David McCallum, Conergy Australia, *Committee Hansard*, 28 May 2010, p. 46.

12 Mr Liam Hunt, SolarShop Australia, Answer to Question on Notice.

The Solar Shop further argued that such changes were about sustainability and self sufficiency, not just of an environmental nature, but of the renewables industry overall:

> Our ultimate aim as an industry is to be self-sufficient, so we are not relying on a mechanism from the federal government to encourage people to purchase solar. That is why we think the solar credit scheme is a good one and the proposed changes we have put forward will enable us, as an industry, to grow to a level where we will be self-sustaining.[13]

Coalition Senators note Recommendation 1 of the majority report, largely driven by this evidence, that mechanisms to manage high demand be considered. However, Coalition Senators strongly believe that the risks identified by industry in the course of this inquiry warrant more immediate changes to avoid yet another unsustainable boom in the solar PV sector.

Under existing conditions, Coalition Senators believe there is too great a risk of unsustainable overheating of the small-scale market and accept the arguments of solar PV businesses that longer term sustainability for the renewable energy industry would be better achieved through a lower Solar Credits Multiplier, but available to larger generation capacity units.

Recommendation 3

That the Government consider amending the Solar Credits Multiplier to increase the maximum allowable system size and decrease the size of the multiplier.

EITE Assistance

Coalition Senators note concerns expressed by some representatives of emissions-intensive, trade-exposed (EITE) activities about the adequacy of assistance under the Renewable Energy Target (RET) and the linkage of some changes to passage of legislation enabling the Carbon Pollution Reduction Scheme (CPRS). Particular concerns were expressed from the aluminium and alumina industries, some of which are canvassed in the majority report.

Rio Tinto highlighted remaining links between EITE assistance under the RET and the CPRS, specifically pointing to the uncertainty that now exists around the CPRS given the Government's announced deferral of its implementation:

> For the electricity intensive industries, such as aluminium smelting, where internationally competitive electricity prices are vital, the proposed EITE partial exemption will become even more inadequate. The pre-condition of passage of the CPRS legislation before activities become eligible for partial exemption should be removed given the announcement on 27 April 2010 of

13 Mr Liam Hunt, SolarShop Australia, *Committee Hansard*, 28 May 2010, p. 44.

> the delay of the CPRS until "*after the end of the current commitment period of the Kyoto Protocol and only when there is greater clarity on the actions of major economies including the US, China and India*."[14]

The partial exemptions granted to EITE industries that are proposed appear overly complex to Coalition Senators and unreasonably reliant on the uncertain passage of the CPRS sometime in the future. The different exemptions for energy generated under the new Renewable Energy Target as against the original Mandatory Renewable Energy Target are a recipe for uncertainty for these industries.

Recommendation 4

That the Government consider measures to remove any linkage of EITE exemptions under the RET to the passage of the CPRS and simplify the operation of such exemptions.

Senator Mary Jo Fisher
Deputy Chair

Senator the Hon. Judith Troeth

Senator Guy Barnett

Senator Simon Birmingham

14 Rio Tinto, *Submission 9*, p. 3.