22 July 2008

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

Email: eca.sen@aph.gov.au

Dear Sir / Madam

Save our Solar (Solar Rebate Protection) Bill

Green Energy Trading (GET) is an independent Renewable Energy Certificate (REC) Agent that was established late in 2007. Green Energy Trading supports solar energy businesses to access market based support programs such as RECs for the benefit of their customers.

GET's clients are solar energy installers and solar businesses and GET created 18% of the 66,000 RECs that were created for PV systems in the June Quarter of this year. GET works closely with its solar clients and their customers in creating RECs for PV and solar hot water installations.

We are extremely concerned with the "means testing" of the Solar PV Rebate and its impact on the development of the emerging solar industry. This announcement comes at a critical time for the industry, which has been rapidly investing and gearing up capacity to deliver on customer demand. There have been a mass of cancelled orders from customers planning to access this program, with reports already emerging of significant lost business, job losses and stranded investment.

GET welcomes the opportunity to make a submission to the Committee and would be available to give evidence before the committee when it meets in Melbourne on Monday 28th July 2008.

There are three important issues that we would like to bring to the attention of the Committee and these are discussed below. We have also included as an Attachment, a Paper that we have developed that assesses the implications of the means testing of the PV Rebate on the level of installations.

1. **The previous government committed to extend the PVRP in the event that it was popular and was oversubscribed.**

   The Howard Government in the 2007 Commonwealth Budget committed to supporting Australia's solar PV industry energy industry by increasing the level of the PV Rebate from $4000 to $8,000 for a 1 kW system. The Prime Minister publicly committed to making additional funding available in the event the rebate was over-subscribed.

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"Well we have done something that I know your program is very interested in, and that is to double from $4,000 to $8,000 the solar rebate. And that is a demand driven program. So as many households as want it, can have it. I mean there are estimates made for Budget purposes but if it turns out to be more popular, well, more money will be made available." Interview with Channel Seven's Sunrise program on 9 May 2007

In response to government support for solar PV many businesses both large and small committed investment to build capacity and capability to meet customer demand for solar PV. This investment was across the industry – 77% increase in the number of accredited installers, additional training courses at TAFEs, additional retail, wholesale and warehousing facilities as well as investment in manufacturing "balance of system" components.

These businesses counted on the Government's five year program to support solar PV remaining in place and relied on statements from the government that the scheme would be extended if it proved popular.

It is not surprising therefore that these businesses feel betrayed and are left with significant stranded investment given the government's decision to means test the rebate. Means testing the rebate resulted in a mass of cancelled orders as customers as the customers willing to invest in PV typically had a family disposable income in excess of $100,000.

The changes to the rebate structure were made without warning, without consultation and without compensation. It is worth considering the favourable treatment that polluting coal fired power stations will be given under the Governments "Carbon Pollution Reduction Scheme". The government appears to be recognising pre-existing investment in polluting power stations, notwithstanding that the owners have been aware of an impending emissions trading scheme for quite some time now. The solar industry on the other hand was not given any advance warning or consultation on a change in government policy that dramatically impacted on their businesses.

2. Means testing support for a public good such as solar power is counter productive

Means testing support for a public good such as solar power does not make sense. The benefits of solar power accrue to the community, not the individual household. Means testing runs counter to the aims of the scheme and furthermore, no other Government support initiatives for industry development and carbon reduction projects are subject to means testing.

Whilst the cost of PV has fallen solar power is still not yet a cost effective investment even with the maximum rebate of $8000. Currently a 1 kilowatt system costs approximately $13,000 - therefore after the rebate and the value of Renewable Energy Certificates (RECs), a household pays $4,000. The household benefits from reducing their net energy purchases from the grid, however under current policies and electricity prices the household will not receive an economic pay-back on this investment. The decision to buy solar power is made through a combination of environmental motivation and economic considerations. The contribution to greenhouse gas reductions, meeting peak power needs and reduced future prices is a "common good" enjoyed by the wider community.

The rebate program is an industry development measure that aims to build industry capacity and capability in order to continue to drive cost reductions in solar power. To

meet the challenging emissions reductions which are required to avoid dangerous climate change, increasing amounts of solar power will need to be deployed on a large scale.

PV Programs have been successful at driving cost reductions to date - over the last eight years the real price of grid-connected PV has dropped by more than 32% (excluding GST). Along with international developments, Australian solar power rebate programs for grid-connected and remote solar power systems have been instrumental to achieving this price reduction.

No other Government support initiatives for generation projects are subject to means testing. Generous grants are being made to support carbon capture and storage – with recipients likely to include profitable international power generation companies and coal companies. Why should working families who are willing to be out-of–pocket by investing in a public good from which they will not make a tidy profit, be subject to a test on whether they should be supported in doing this?

3. Leveraging private investment

The means testing of the solar rebate is also a retrograde policy step as it will increase the amount of money that Government spends per unit of solar PV installed. The rebate programs support households to invest in our solar power for the whole community. In the past the grid-connected solar PV rebate has successfully leveraged sizeable private investment into solar power.

In 2006, the then Business Council for Sustainable Energy reported that Australian Government investment of $85 million in the PV rebate programs from 2000-05 supported industry sales of over $1 billion. This represents an investment leverage ratio of more than 12 times.

Unfortunately the impact of the means test to the on-grid solar PV rebate will be to reduce the amount of private investment leveraged by the government funds, with the result being a reduction in installed PV capacity per dollar of Government spending. Under the previous PVRP scheme, while the maximum rebate level was capped at $4,000 – and later at $8,000 – for a 1kW system, with no further assistance for installing a larger system the average size of system being installed under the PVRP had been maintained at between 1.5 to 1.8 kW (refer to the Attachment). This is because those customers who could afford to contribute more and install larger systems, did so. This meant that the overall rate of Government spending under this scheme was only $5,000 per kW of installed capacity, or in other words, each dollar invested by Government was more than matched by customers.

However, the means test on the Solar Homes and Communities Plan has removed financial support for installing solar power to the very households who are most able to and most likely to be willing to invest in it. A pre-requisite to access the solar rebate is ownership of a home. As we discuss in the attachment, only limited families with a mortgage and a combined taxable income of less than $100,000 are likely to have the disposable income to afford a PV system. More particularly, very few of the families who do qualify and are prepared to invest in a PV system would be prepared to invest more than $8,000 in a larger 1.6 kW system.

Anecdotal advice from installers since the means test indicates that recent systems being installed and financed via the Solar Homes and Communities Plan are typically much lower capacity – towards 1 kW – targeted at the minimum capacity required for

maximum Government assistance. This results in minimal extra spending on the customers behalf. The impact of this is to increase the average rate of government support from $5000 to more than $7000 per installed kW and correspondingly reduces the level of private investment.

The structure of the rebate at $8,000 (for a 1 kW system) was unstable and unsustainable. Industry had feared that it would be over subscribed and wrote to the Minister in early April 2008 suggesting that the rebate be changed to 50% of the cost of the system, as this would best leverage industry development and maximise the solar power produced.

The unprecedented means testing of this industry support measure was a brutal and blunt means by which to ration the funds available for what had been a successful program. The funding could have been rationed in a number of other ways that would have maximised the environmental and industry development outcomes and minimised the adverse impacts on many small and large solar businesses across the country.

We welcome the opportunity to participate in the forthcoming hearings.

Yours sincerely

Ric Brazzale
Managing Director

Solar PV Rebates

1. Level of applications to date

The Government had previously advised that the level of applications at the beginning of the year were running at about 900 per month (Jan/Feb 2008). In Senate Estimates, Government advised that they were receiving:

- averaging 190 applications per week up to 6 weeks before budget
- 365 applications per week on average for the 6 weeks before budget
- 493 applications in the week before the budget

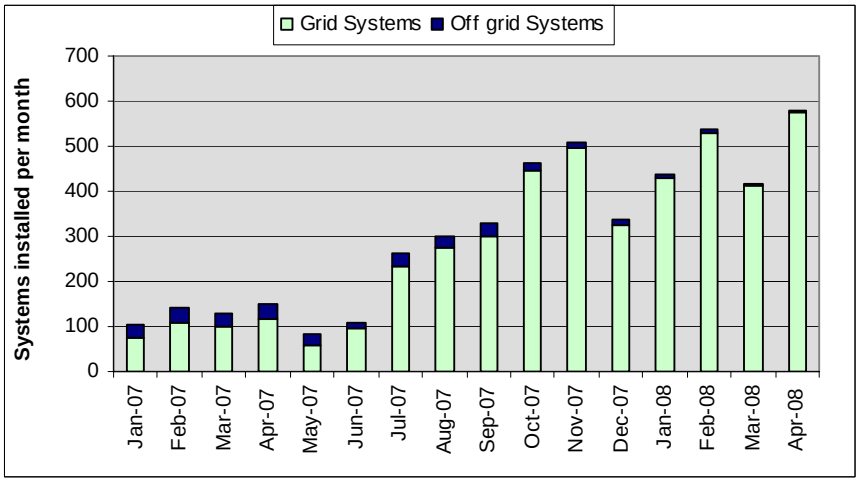
We can therefore conclude that applications were running at around 900 per month for the months of Jan to March and then at around 1300 for April. It is also important to recognise that a large number of applications were through PV groups which were packaging clusters of 1 kW systems. Given that the April demand may not have been sustained, the average sustained level of applications is likely to have been at least 1100 per month. This is based on the $8,000 rebate level and would entail an average system size of 1.6 kW (the current average for grid systems) which would mean an average customer investment of around $8,000 to $9,000 per system – depending on whether customers sell their Renewable Energy Certificates (RECs).

2. Level of installations

Under the PV Rebate Program the Government pays out the rebate once systems have been installed which occurs some months after the application has been received. Not all applications will be approved and not all customers will proceed with the installation. Furthermore there will be several months lag between the application and the eventual installation. The level of installations will also be lower over the Christmas / new year holiday period.

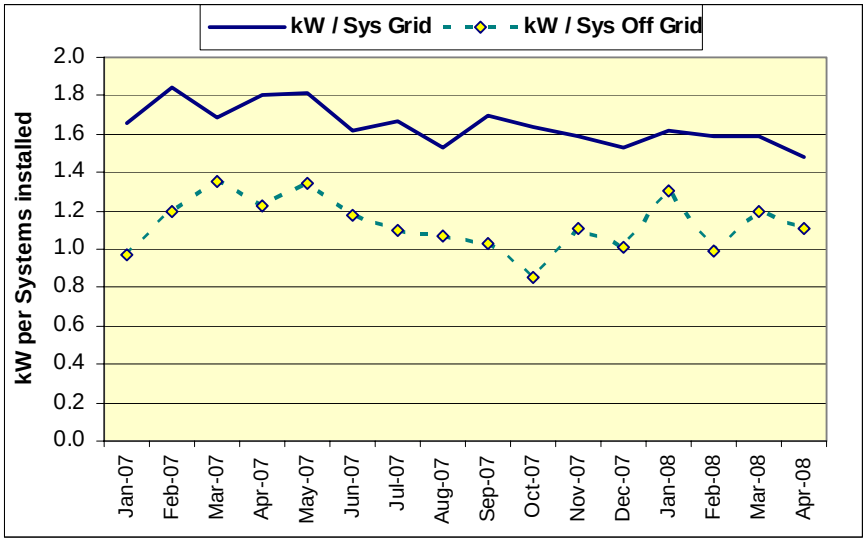
The latest data available from government on the level of installations (from DEWHA website) is set out in Figure 1 below:

Figure 1. Number of installations (source DEWHA)



The average size of systems installed has been reasonably constant at more than 1.6 kW per system over the last year (refer to Figure 2 below).

Figure 2. Average capacity per installation (source DEWHA)



While the level of the rebate cuts out at 1 kW, until the Federal budget in May, customers had been installing considerably more capacity – averaging 1.6 kW (60% more than the level being funded by the rebate). The customer has effectively invested a similar amount to the government – at least an additional $8000 per system – effectively leveraging the Government's financial support by 100%.

3. Implications of "means testing" the Rebate

A customer will still have to pay at least $3,000 for a 1 kW PV system even with the $8,000 rebate and RECs. A customer's disposable income will be a key determinant in their preparedness to invest in a solar PV system. A pre-requisite to qualify for the rebate is to own a home. Not many families with a mortgage (and a combined taxable income of less than $100,000) are likely to have the disposable income to afford a PV system.

Early indications from the PV installers and solar companies were that around 70 to 80% of orders were cancelled following the introduction of the means test.

More importantly however, very few families with a combined taxable income of less than $100,000 would be prepared to invest more than $8,000 in a larger system of 1.6kW. Anecdotal advice from a number of installers indicates that systems that are being applied for under PVRP with the means test of $100,000 are typically much lower capacity - around 1kW - to maximise the use of the rebate and minimise the amount spent on the system.

We understand that the changes made to the budget funding will provide approximately $50 million in each of the next two financial years to fund rebates. This works out to 6000 installations per annum or an average of 500 per month.

We anticipate that the number of installations is likely to remain at these levels over the next few months given the buildup in the level of applications under the previous arrangements (without means test).

It is difficult to forecast the likely impacts and timing; however we can assume that the $50 million of funding per annum will be spent as the industry adjusts to the new arrangements and finds new avenues to the new target market – families and retirees with joint taxable income of less than $100,000. However, we also expect that the average system size will progressively fall to closer to 1 kW per system and that the installation of systems will tend to be more concentrated. The PV industry to date has developed on a distributed basis, with more than 400 installers around the country supplying and servicing customer needs.

PVRP is an industry development measure not an income support initiative for working families. It was designed to increase the amount of solar power installed to reduce greenhouse gas emissions and to support the growth of Australia's industry.

The structure of the rebate at $8,000 (for a 1 kW system) was unstable and unsustainable. Industry had feared that it would be over subscribed and wrote to the Minister in early April 2008 suggesting that the rebate be changed to 50% of the cost of the system, as this would best leverage industry development and maximise the solar power produced.