



Clean Energy Council

Submissions
Climate Change Authority
GPO Box 1944
Melbourne, Victoria 3001
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Clean Energy Council submission to the Renewable Energy Target Review Discussion Paper

The Clean Energy Council (CEC) is Australia's peak industry body for the clean energy sector. We welcome the opportunity to provide comments in response to the *Renewable Energy Target Review Discussion Paper*. The Renewable Energy Target (RET) is the single most important policy for the development and deployment of renewable energy in Australia. Since its introduction in 2001 it has proven itself highly effective at deploying proven, lowest cost renewable energy technologies. More recently, it has set Australia on a path to achieving 20% renewable energy by 2020. This will only be achieved however if the scheme is left to provide an appropriate design and certainty to investors.

The CCA is to be congratulated for a Discussion Paper which recognises many of the strengths of the RET scheme and acknowledging the need for fundamental aspects of the scheme to remain unchanged.

In summary, this submission:

- Welcomes the acknowledgement of the importance of policy stability for the renewable energy industry;
- Welcomes the recommendations that contribute to policy stability; and
- Outlines our concerns about the recommendations that, in our opinion, would undermine policy stability and investor confidence.

This review is of critical importance to the entire renewable energy sector, and the CEC welcomes further discussion with the CCA on any aspects of the RET or matters raised in this submission.

Please contact Clean Energy Council Policy Director Russell Marsh (03 9929 4113) if you wish to discuss any of these matters further.

Yours sincerely,

Kane Thornton
Deputy Chief Executive
Clean Energy Council

Importance of Policy Stability

The CEC welcomes the acknowledgement in the *Renewable Energy Target Review Discussion Paper* of the importance of policy stability for the renewable energy industry. As the CCA has noted, policy stability and predictability are important elements in encouraging new investment at a reasonable cost. Recommending major changes to current policy settings at this time could increase risk premiums required by lenders and investors in renewable energy, and may affect perceptions of risk for investors in clean technologies more broadly. The renewable energy industry is particularly concerned by reform proposals that would require legislative change. Introducing legislation to Parliament in the current political environment would create a high degree of uncertainty for the investors in the renewable energy industry.

In recent years there have been frequent, significant changes to renewable energy policies, including to the RET scheme itself as well as a protracted debate about carbon pricing. While some of this has now been resolved, other aspects, such as the future of carbon pricing under an alternate government, remain subject to much speculation and uncertainty. In this context, leaving the fundamental design and target of the RET unchanged is absolutely critical. Again, the CEC congratulates the CCA for recognising this and making recommendations that deliver on this principle.

The RET has undergone regular review since its inception, each time resulting in slowing or deferment of investment. Two yearly RET reviews present the single greatest risk to the achievement of the 20 per cent target by 2020, particularly as the review is considering changes to the overall target itself and not just the operation of the RET scheme. We would therefore strongly support, in principle, the recommendation that “the frequency of scheduled scheme reviews be amended from every two years to every four years”. This is consistent with the review frequency for the recently released Energy White Paper. We would also urge such changes in the frequency to be accompanied by changes in the scope of the review, to remove uncertainty about critical aspects, such as the minimum legislated GWh target.

However, implementation of this recommendation would necessitate legislative change in 2013, and outlined above, in the current political environment we believe this would present a greater threat to policy stability than would be achieved if the legislative change proposal were successful. On balance, we therefore believe the *RE Act* should not be amended, not even for the highly desirable outcome of reducing the regularity of the review period to every four years.

Previous policy instability has not however been isolated to large scale investments. For example, there was the creation of the SRES scheme, earlier than anticipated reductions to the SRES multiplier and boom-bust cycles driven by state government policies on feed-in tariffs (FITs). The small scale market now needs a period of stability. We now have policies in place that will provide a stable environment for renewable energy businesses and investors. The SRES multiplier is about to be reduced to one and most state and territory governments have reduced their FITs to a level that provides no special incentive for investment in rooftop solar PV systems. The most desirable outcome now would be a decision to retain existing policies and legislation and recognise that a period of stability is essential to industry, as well as to inform any future sensible policy reform.

We strongly support the following recommendations of the *Renewable Energy Target Review Discussion Paper*:

- The form of the target should continue to be expressed in legislation in terms of a fixed gigawatt hour level.
- The existing large-scale renewable target of 41,000 GWh and interim targets should be maintained in their current form.
- A future review is a more appropriate time to consider adjusting the targets beyond 2020 in light of the policy and economic conditions prevailing at that time.
- The Small-scale Renewable Energy Scheme (SRES) should remain separate to the Large-scale Renewable Energy Target (LRET).
- The SRES price cap should remain fixed at \$40, to be reassessed once there is some experience of the scheme's operation in the absence of the multiplier.
- There should be no changes to the primary point of liability or the size threshold for coverage of grids.
- No changes should be made regarding the process for calculating individual liability.
- The current settings for the shortfall charges should be maintained.
- The level of the emissions-intensive, trade-exposed exemption under the Renewable Energy Target should be considered by the Productivity Commission as part of its broader review of the carbon pricing mechanism Jobs and Competitiveness Program in 2014-15.
- The Commonwealth Government should consider opportunities to align application processes and data requirements for the Jobs and Competitiveness Program and the Renewable Energy Target as closely as possible.
- No change is necessary to the accreditation process for LRET.
- Existing arrangements for waste coal mine gas should be maintained.
- There should be no change to the Renewable Energy (Electricity) Act 2000 (*REE Act*) to allow for new coal mine waste to be eligible.
- Without a clear process for ensuring that inclusion of wood waste from native forests would be ecologically sustainable it should not be reintroduced to the RET.
- No additional new small scale technologies should be made eligible in the SRES at this stage.
- Existing arrangements for displacement technologies should be maintained.
- No change should be made to the *REE Act* to allow additional displacement technologies at this stage.
- No change should be made to the Renewable Energy Target Framework.
- Existing SRES deeming arrangements remain appropriate.

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provides no special incentive for investment in rooftop solar PV systems. The most desirable outcome now would be a decision to retain existing policies and legislation and recognise that a period of stability is essential to industry, as well as to inform any future sensible policy reform.

Proposals to amend SRES

CEC has consulted extensively with its membership regarding the *Renewable Energy Target Review Discussion Paper*. Of greatest concern to CEC's members are the proposals to amend the SRES. These proposals are counter to the broader principle of the need for policy stability. Further, all of the proposals to amend the operation of the SRES would require legislative change, threatening policy stability for the entire sector and potentially affecting perceptions of risk for investors in clean technologies.

Specifically, we are concerned by the following proposals:

- The Authority is continuing to consider whether the threshold for a small-scale PV system should be reduced below its current 100kW limit to for example 10kW.
- The preliminary view of the Authority is that discounting (multipliers of less than one) of the number of certificates to be created in respect of each megawatt hour be provided to allow the Minister to control the cost of SRES and ensure the subsidy level is appropriate.
- The preliminary view of the Authority is that a decision to apply or lower a discount factor should be applied in the following manner:
 - The Minister should consider whether to lower the discount factor at the time the small-scale technology percentage is set each year.
 - The Minister's decision should be based on, and proportional to, the following criteria: (i) any reduction in net system costs over the last year; (ii) electricity prices and whether the SRES contribution is greater than 1.5 per cent; and (iii) whether the average payback period of a small-scale system has fallen below ten years.
- The Authority is continuing to consider whether, in conjunction with any reduction in the threshold for a small-scale photovoltaic system below 100 kilowatts, any shortening of the deeming period for larger sized units would be appropriate.

While the CEC recognises the need to be considerate of the impost of SRES on electricity prices, it should be noted that:

- The benefit of SRES to consumers outweighs the relatively small cost of SRES. While some commentators have overstated these costs, analysis by the CEC and confirmed by the recent modelling undertaken by the CCA confirm the small cost impost.
- The cost of SRES has peaked and is declining quickly. This is as a result of the reduction in the multiplier (which has been brought forward), reduction in state based feed-in tariffs which have subsequently slowed the uptake of PV and the declining cost of solar PV more generally.
- The SRES is a complex policy mechanism which is only now being more fully understood by market participants. Any changes to the scheme are likely to be complicated, have a negative impact on market participants – including consumers - and their understanding and interaction with SRES. Further, this complexity means the overall impact on SRES cost impost

on electricity prices will be very difficult to evaluate, and indeed is likely to have a range of unintended consequences that may well offset any theoretical cost savings.

In considering the above points CEC believes the SRES scheme should be left unchanged at this stage with a period of stability before any further changes would be considered or put in place. The remainder of this submission assesses three of these specific proposals for amending SRES.

Proposal to amend the SRES / LRET threshold

Shifting commercial-scale solar PV into the LRET market would increase uncertainty regarding the future supply of LGCs and this would increase the difficulties that project developers face in securing Power Purchase Agreements (PPAs). This would particularly be the case if deeming provisions were to be introduced to the LGC market for larger solar PV systems.

CEC member companies that specialise in commercial-scale PV systems have expressed concern regarding the proposal to reduce the SRES / LRET threshold and, in particular, the suggestion that the threshold could be reduced as low as 10kW. These companies have noted that customers who purchase PV systems greater than 50kW in capacity tend to be larger companies with more sophisticated financial management systems. These are the kind of companies that are capable of dealing with the additional complexity of the LRET market, which is currently the case for companies purchasing systems of more than 100kW capacity.

Companies and individuals purchasing systems between 10kW and 50kW in size tend to be smaller companies with unsophisticated arrangements for financial management. These purchasers would be discouraged by the complexity of participating in the LRET market (assuming there were no deeming arrangements in place). Small and medium sized enterprises (SMEs) are increasingly considering solar PV systems as a means of reducing future electricity bills. An increase in the administrative burden associated with solar PV systems would act as a strong disincentive for SMEs.

We note that in Victoria, New South Wales and South Australia, large energy users are defined as those who consume more than 160 MWh per annum. In Queensland and ACT large energy consumers are those who consume over 100 MWh per annum. If it is assumed that solar PV systems would receive an average of 5 hours full sunlight per day, which is at the upper end of the average for Australian capital cities, then businesses consuming 100 MWh and 160 MWh per year would require solar PV systems of 55 kW and 88 kW respectively. On this basis it would appear that reducing the SRES / LRET threshold below about 55 kW would, in effect, be shifting small businesses into a reporting and compliance regime better suited to larger businesses.

On balance, CEC is opposed to any legislative change to adjust the threshold for small-scale PV systems.

Proposal to reduce the multiplier

The small scale renewable energy sector believes that reducing the portion of an STC that small scale technology would be eligible for, below one would unfairly penalise SRES technologies in comparison with LRET technologies. Notwithstanding prior policy approaches, the multiplier should be retained at one so as to treat all electricity generation by all renewable technologies on an equal footing.

Implementation of the proposal to utilise average payback period as a criterion for lowering the SRES multiplier would be highly complex and problematic. If the approach were simplified, it would inevitably be perceived as unfair.

Payback periods vary by state, due to variations in the price of electricity and small-scale generation systems. In addition, SRES technologies have significantly different payback periods. In order to reduce the SRES multiplier based on a payback period criterion and in a manner that is fair and equitable, there would need to be different multipliers for each state and territory and for each SRES technology. With eight states and territories and five SRES technologies, there would potentially be as many as 40 SRES multipliers!

A proposal for a single SRES multiplier below one would also be problematic. If the single SRES multiplier adjustment were based on the state and SRES technology with the shortest payback period it would very likely be perceived as being unfair to all other SRES technologies and consumers in all other states. However, if the multiplier were adjusted based on the state and SRES technology with the longest payback period then the policy may not meet its stated objective.

CEC members have also expressed a strong view against the use of a ten year payback period as a criterion for a decision to lower a discount factor. Consumers generally expect a payback period of five to seven years. Regulating solar PV systems to achieve a payback period of ten years would be a strong disincentive for new purchases and would be considered manifestly unfair. We note that regulated returns within other parts of the electricity industry yield a return on investment equivalent to a payback period of considerably less than ten years.

Summary

As of 1 July 2013 the SRES and LRET will finally get to operate as they were intended – with a single STC per MWh production and with most state and territory feed-in tariffs wound back to a ‘fair and reasonable’ value.

We encourage the CCA to give the scheme the time to operate as intended, providing the degree of policy stability desired by investors and the renewable energy sector more broadly. With no change to legislation there would be another review in 2014, which would be an appropriate time to evaluate the operation of the LRET and SRES as originally intended and to consider whether further changes are required.