



Submission:

**Climate Change Authority
RET Review Discussion Paper
November 2012**

by the
Sustainable Energy Association of Australia
www.seaaus.com.au

Table of Contents

Contents.....	1
1 Overview	2
2 Maintaining Certainty of the RET	3
3 Changes to the Small-scale Renewable Energy Scheme (SRES).....	5
Reduction of the SRES generation limit	5
Reduction of the value multiplier of solar PV SREC	6
4 Administrative Issues in the RET	8
5 Sustainable Energy Association of Australia (SEA)	9

1 Overview

The Sustainable Energy Association of Australia (SEA) is a peak business body for the sustainable energy industry and for enterprises supporting sustainable energy. SEA is a chamber of enterprises and actively advocates for substantive action on sustainable energy in all sectors of the economy across all regions of Australia. SEA promotes the development and adoption of sustainable energy technologies and services that minimise the use of energy through sustainable energy practices and maximise the use of energy from sustainable sources. SEA has a strong reputation for authoritative commentary on a broad range of issues around energy efficiency and sustainable energy.

As a supporter of the increased uptake of sustainable energy in Australia, SEA supports both the Renewable Energy Target (RET) and the carbon price as ways to increase Australia's commitment to reducing carbon emissions.

While SEA supports the RET, it is of the view that some of the changes proposed by the Climate Change Authority (CCA) in relation to the operation of the RET would have a negative impact on the uptake of renewable energy and would lead to 'unintended consequences,' which have the potential to change the effect of the RET and slow investment rates. However, not all suggested changes will have a negative impact and that some of the suggested changes in the CCA's recommendations are worthy of support.

The key issues that SEA wishes to comment on relate to:

- Maintaining a stable business and policy environment;
- Maintaining the integrity of the SRES scheme; and
- Administrative aspects of the RET which impact business.

2 Maintaining Certainty of the RET

The RET is currently subject to a review every two years. SEA supports the recommendation that this review period is extended to a period of four years. Considering that the current review is occurring over a period of six months, a biannual review would imply that there are only 18 months of relative stability in the administration of the RET before further changes could occur. When one considers that any review would then entail a period of legislative or regulatory change, this period becomes even shorter once these changes are passed.

Furthermore, the lead times associated with new energy generation planning, development, and approval are longer than the review period of two years.

The increase of the review period to four years will create a more predictable business environment and encourage greater investment through greater policy stability. Policy uncertainty has been a significant problem for many sectors of the renewable energy industry with changes occurring with dramatic regularity at a state level – often exacerbated by further changes at a Federal level. This instability is anathema to the purpose of the RET (to grow renewable energy generation), as businesses are hesitant to invest where the likely change of the rules by government can significantly impact the potential for a profitable and sustainable business.

The issue of stability is also highlighted in the proposed changes to the Small-scale Renewable Energy Scheme (SRES) with the broadening of the Minister's discretion to have effective power to set rates of return for small scale system, and to vary this effectively as he sees fit based on information received by third parties. While SEA acknowledges that such change mechanisms can be important, the CCA's recommendations are far in excess of what is needed for the scheme. They are potentially open to political manipulation of the effectiveness of small-scale market by those ideologically disposed against renewable energy. That there is no effective mechanism for consultation or appeal of the Minister's decision is also a highly concerning factor; although it is open to publication, such a fiat decision is concerning to those businesses that operate within the small-scale renewable energy space. The CCA approach increases uncertainty and unpredictability through:

- Increased Ministerial discretion with very general criteria is a sure way to ensure that investment stagnates. Financiers are less likely to provide funding to support an industry whose market price is impacted by annual change with seven months' notice.
- The whole concept of annual determinations by the Minister is akin to having a review of the RET every year. The CCA strongly recommended that two-year reviews just added to uncertainty and should be extended to four years, but the Ministerial review increases the frequency of reviews with key settings of the SRES revisited annually.
- As the level of certificates that a Solar PV system receives can be changed, it makes it impossible for solar companies to contract beyond 30 June of any year. This

implies that any signal provided by the scheme can only support very short-term investment and negatively impact long term planning by businesses.

3 Changes to the Small-scale Renewable Energy Scheme (SRES)

A number of the suggested changes to the SRES are of a significant concern to SEA and its member organisations. The two key areas of concern are:

- Reduction of the SRES cap from 100 kW to 10 kW; and
- Reducing the effective value of renewable energy produced by small scale solar PV systems

These recommendations will not only have an appreciable impact on large-scale generation investment, but also on the sustainability of the small-scale solar PV market.

Reduction of the SRES generation limit

In relation to the first point above, the reduction of the transition point from small-scale to large-scale to 10kW creates a major risk to the viability of this 'middle ground' as an effective market for both businesses and consumers. SEA is concerned that this reduction is seen primarily as a 'cost saving' measure to cap SRES costs to retail consumers rather than as a mechanism for increasing renewable energy generation.

In its report the CCA makes what SEA sees as a flawed assumption in relation to business drivers for the uptake of commercial / business self-generation by stating that:

*"As larger systems will typically be installed by businesses, the investment drivers are likely to be similar to those under the LRET."*¹

There is a significant flaw in this assumption and the logical reasoning to then reduce the SRES cap to 10kW. The assumption is that all businesses have the same drivers and investment criteria for renewable energy uptake. From SEA's discussions with its members (both end users and suppliers), a business's decision to adopt renewable energy in a self-generation capacity entails different investment decision criteria than a decision to export energy into the wholesale market.

Self-generation by commercial businesses who are not 'generators' per se still confront internal hurdles regarding:

- i. Reduction of the capital cost of installation of an SRES system;
- ii. Internal capital competition for resources that would fund the installation;
- iii. Internal split incentives between capital cost and operational budgets;
- iv. Shorter pay back periods on any capital required than for generation businesses;
- v. The administrative cost of creating and selling certificates under the relevant scheme.

Currently we see that there is slow business uptake in many cases of commercial solar PV due to the issue of internal capital competition and payback. Moving to the LRET rather than

¹ Climate Change Authority (2012) *RENEWABLE ENERGY TARGET REVIEW: Discussion Paper*, p86.
Sustainable Energy Association of Australia
National Energy Savings Initiative Submission
February 2012

the SRES would increase capital costs and therefore create greater barriers to uptake. Furthermore, the increased compliance costs for businesses under the LRET (relative to the SRES) would likely act as a disincentive to commercial scale solar PV uptake under this recommendation.

Businesses that aim to generate and export energy as their primary revenue stream would not face these barriers in deciding to generate energy within the LRET, rather these are core issues to the viability of the business. As such, conflating both self-generation uptake with commercial generation businesses is not comparing similar circumstances. SEA believes that the CCA has made a critical mistake in assuming that this is the case.

In addition to the points above, there is no logical support for a 10kW cap on the SRES given in the report. SEA would need to see a logical reason why this cap would be in the best interests of both consumers and suppliers.

Reduction of the value multiplier of solar PV SREC

SEA opposes the recommendation made by the CCA that there is the potential of introducing a multiplier for small scale solar PV that is less than **one**. The reasoning behind the CCA's recommendation is to limit the cost of the SRES' contribution and the falling cost of solar PV systems and for the scheme to retain an appropriate level of support.

The introduction of a mechanism to reduce the effective value of solar PV STC is a discrimination against small-scale solar systems relative to other forms of renewable energy. This discrimination is an overreaction to a problem created by overly generous policies. These policies transferred the cost of implementation from the Government (under a grants scheme such as the Solar Homes & Communities Program) to the market (Solar Credits multiplier) in combination with state-based Feed in Tariff schemes.

The problem has already occurred in the SRES and is unlikely to do so again without the increase in the SREC creation above a multiplier of one. Many stakeholders in industry, including SEA at the time, warned of the potential impact of the Solar Credits scheme and these warnings were not given due consideration. There is risk that unintended consequences of the impact of a reducing SRES multiplier would cause a further depression in the small scale-industry, which is highly competitive and operates on low margins due to price competition.

It is not appropriate to now contain uncertain future costs by the reducing multiplier, particularly for a scheme that is intended to incentivise renewable energy.

The core objections to these changes, as viewed by SEA, are:

- i. Discrimination of self-generation against centralised generation is an unacceptable precedent to disadvantage one technology over others;
- ii. The utilisation of 'averages' as a determinant is problematic, as it treats all climate zones and jurisdictions within Australia as equal, which is not the case;
- iii. Solar PV and solar water heaters have different drivers and economics, however the CCA has proposed applying the same discount both at the same rate;

- iv. The average return rate for residential homeowners and small business is unrealistically low, as is having a payback less than 10 years and an artificial rate of return of 5.5%;
- v. Businesses do not typically undertake energy efficiency improvements in which payback is more than three years, so it is not clear why they would invest in solar with a payback of more than 10 years;
- vi. As energy costs increase in the future, payback periods will shorten over the life of the system, making determinations of the period in advance unpredictable; and
- vii. The issue of uncertainty as previously mentioned would be exacerbated by the proposed mechanism of change to downgrade the proposed multiplier on an annual basis.

SEA is of the view that the combination of these above factors demonstrates that the introduction of a 'falling' SRES multiplier of less than one is not an appropriate mechanism to support the purpose of the legislation upon which the RET is based.

4 Administrative Issues in the RET

The CCA has recommended that:

“...the small-scale accreditation system should be open to accreditation bodies other than the Clean Energy Council. Provision should be made for the Clean Energy Regulator to develop to develop a regime to approve accreditation bodies.”

This recommendation is strongly supported by SEA and its members. In the previous changes to the RET that introduced the CEC accreditation requirement, SEA put forward the position that creating a statutory monopoly on accreditation does not serve the industry, a position which was supported by other member based organisations such as NECA and the Australian Solar Council (then AuSES).

Accreditation should be an open process with the potential for accreditation by any appropriately qualified organization, and it should be delivered through a registered training organisation (RTO).

The accreditation of all such persons should then be required to be kept by the Clean Energy Regulator who would act as the ‘independent umpire’ in keeping a register of all suitable qualified persons.

5 Sustainable Energy Association of Australia (SEA)

SEA promotes the development and adoption of sustainable energy technologies and services that minimise the use of energy through sustainable energy practices and maximise the use of energy from sustainable sources.

SEA 2030 Vision

‘On behalf of the people of Australia, the Association will vigorously promote the development and adoption of sustainable energy so that by the year 2030 more than 30% of Australia’s energy use in and across all states and territories is displaced by sustainable energy practices so that energy demand is more than 30% below that measured in the year 2000, and that more than 30% of energy use is derived from sustainable sources.’

About SEA

SEA is a chamber of businesses variously promoting, developing and/or adopting sustainable energy technologies and services that minimise the use of energy through sustainable energy practices and maximise the use of energy from sustainable sources.

SEA is building relationships with businesses that aspire to be more sustainable in their own energy use, are providing the commercial solution to climate change through their products and services, or indirectly through their actions adopting more sustainable energy practices in their own business. Many businesses are acting to support the development of the best policy outcomes for the industry by becoming SEA members.

The role of governments is to build frameworks of governance that establish clear market signals for change and growth, and allow Australia’s innovative businesses to respond and deliver market-based solutions. A key role of SEA is to offer policy options to governments building those frameworks.

SEA Contact Details and Report Authors

Kirsten Rose, Chief Executive Officer (ceo@seaaus.com.au)
Sustainable Energy Association of Australian (SEA)
GPO Box 2409 PERTH WA 6000
(08) 9228 1292
www.seaaus.com.au

SEA gratefully acknowledges the contribution of Neil Prentice in the authorship of this submission.

SEA Corporate Members

The Sustainable Energy Association of Australia thanks all SEA members for their support including our sponsoring members acknowledged below:

Platinum Members



Corporate Members



Probono legal advice provided by Jackson McDonald Lawyers