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CLIMATE CHANGE RET REVIEW SUBMISSION

To the Climate Change Authority
RET Review Submissions
GPO Box 1944
Melbourne Vic 3001

Via Email: submissions@climatechange.gov.au

Dear Sir,

Overview

Enviromate is an Australian company that has an extensive history of renewable energy activity in Australia over the past 4 years. Enviromate has been responsible for the installation of almost 6000 residential and commercial solar systems nationally with in excess of 12 MW of generation capacity.

Over that time, the RET has (through the LGC and STC programs) provided a significant benefit to our customers through the Solar Bonus Scheme and other REC programs.

Whilst the scheme has been far from perfect and open to market manipulation given that the liable parties in the market have deep pockets and are not beholden unto the cashflow vagaries that the generators of certificates generally are (particularly in the STC market), the MRET scheme has provided a solid foundation on which to change the overall energy consumption from polluting technologies to low remission or fully renewable technologies.

The mechanisms in place now are well established and are generally understood by the industry. This provides a level of comfort in the ability to invest in future renewable energy projects, and Enviromate believes very strongly that above all, stability must continue. The introduction of moving targets will do nothing to support renewable energy generation, and will in fact be a huge disincentive for renewable energy generation.

The overriding factor in consideration of the RET is policy stability and certainty. Substantial changes to the operation of the RET or the target now would substantially damage the reputation of Australia as an investment destination and will put in jeopardy the many renewable energy projects currently in planning stages.

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Specific Questions

Are the existing 41,000 GWh LRET 2020 target and the interim annual targets appropriate?

Yes. These targets have been the basis of the development of the Renewable Energy sector to date, and changing the goalposts half way through the game introduces unacceptable uncertainty.

What are the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity?

Any change to the target will affect the desired outcomes of the program completely. Introducing uncertainty will have a significantly detrimental effect on the economic efficiency as without certainty investment will not occur. As the environmental impact is driven by the successful rollout of programs, certainty once again must be assured.

Is the target trajectory driving sufficient investment in renewable energy capacity to meet the 2020 target?

As long as it is consistent and sable, then investment will be driven. Particularly with larger scale projects, it is well understood that the lead time is substantial, so whilst LGCs currently are currently a relatively low price compared to the price of non compliance for liable parties, this will likely be a short term situation as the prices will rise with new future requirements.

Has the LRET driven investment in skills that will assist Australia in the future?

The LRET has set the foundation stone in place for our renewable energy future. Ensuring that the foundation is laid on a solid and immovable policy framework is key.

In the context of other climate and renewable policies, is there a case for the target to continue to rise after 2020?

20% renewable energy by 2020 was always seen as a key milestone in energy consumption. Climate science is consistently re-evaluating the impact of fossil fuel consumption on the environment as we should also do. There is a case for the review of policy in the future, and wether we decide to look at 50% renewables by 2050 would be a question for policy debate.

Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?

The target should be fixed in stone and solid. Any divergence from this policy will introduce uncertainty. The energy consumption forecasts are themselves just that – forecasts, and whilst the original RET target was also based on this, if we overshoot our 20% goal, then we all benefit. If we change the goalposts, this will not deliver an acceptable investment framework into which we can place projects.

Should the target be revised to reflect changes in energy forecasts?

No – the target needs to be absolutely fixed.

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What are the costs and benefits of increasing, or not increasing, the LRET target for Clean Energy Finance Corporation-funded activities? What are the implications in terms of economic efficiency, environmental effectiveness and equity?

CEFC Projects should add to the overall renewable energy framework, but not at the expense of the LRET. Existing and future projects which are funded in part through generating LRECs need a stable framework. Introducing CEFC based LRECs would create an imbalance where the CEFC in confirming and approving projects would affect the outcomes of investment, and would offer the opportunity for large parties to double dip both in having their projects funded AND claiming the LRECs in addition to this. This would undermine the design of the RET legislation to drive investment in and of itself, and would introduce further uncertainty to the process.

Is a list approach to 'eligible renewable sources' appropriate?

Again, there must be a clear target for what is eligible and what is not. In the context of sources of renewable energy, they should be at all times exactly that – sources of renewable energy. To that extent, sources such as landfill gas extraction and waste coal mine gas should be EXCLUDED from the renewable energy list as these are not renewable sources.

What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies?

Existing infrastructure and programs are in place to support the separation of small scale generation. We believe that this is appropriate. Given the nature of the disparate feed-in schemes for small scale solar, investment in particular territories has been a huge problem. Having a bonus scheme introduced too many RECs / STCs which were "bonus" related.

Should there continue to be a separate scheme for small-scale technologies?

Yes, as the cost to unwind the process and system would be too great, both to the sector and to the regulator. Once the SRES scheme reaches parity, there could be some argument to return it to a re-merged scheme, however there is benefit in deeming the certificates up front through a separate scheme. As we reach 2020, we would not want certificates that are deemed out to 2035 to be used for a 2020 liability.

What are the lessons learned from the use of multipliers in the RET?

Lesson learned is that the ROI for domestic installation to be appropriate is around 5-8 years. Where this is exaggerated by overly generous Feed-in Schemes, with a 2-3 year ROI, we found a boom/bust cycle ensued. This needs to be avoided in future.

Is there a role for multipliers in the future?

Where the costs to install is too high and ROI is blown out, there may be a role for the introduction of a new "Zone" for STC generation which would provide an additional multiplier or incentive above the standard calculations to create STCs. This would potentially see additional installation in rural and remote areas which would not otherwise see the benefit of the distributed energy solution.

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Is the STC Clearing House an effective and efficient mechanism to support the operation of the SRES?

The mechanism has been open to rampant exploitation and market manipulation, and given that the market depth is thin and has been depleted over time, it has not been an easy ride, however the basic premise of the clearing house is sound in theory. The messages about how it would operate were not clearly communicated when it commenced which was very unfortunate as it created market expectations which were never going to be realised. Now that the system is understood, it is working better.

Should changes be made to the Clearing House arrangements? If so, what would be the costs and benefits of any suggested alternative approaches?

The mechanism is relatively well understood now, changing the system would not be appropriate.

Is $40 an appropriate cap for small-scale certificates given the recent fall in cost of some small-scale technologies, particularly solar PV?

Yes, particularly as the ROI for systems have been significantly cut through the removal of feed-in tariffs.

Are the SRES administration arrangements appropriate and working efficiently?

On the whole yes. Stability and certainty here is the key.

What is the appropriate frequency for reviews of the RET?

2 years is inappropriate as it does not deliver sufficient investment stability. The review period should be extended to be a minimum of 5 years so as to provide absolute certainty to the market mechanisms.

Summary

The majority of the mechanisms within the RET are working well as they are. The primary focus should be on ensuring stability and certainty for the future of renewable energy investment and where new programs are to be introduced (CEFC etc) these programs should not impact on the target into the future. If a 5 year review was adopted (next review in 2017) we would have a much better idea of what would be required to reach the goals then, and in the meantime we could get on with the job of developing an industry that is creating the Clean Energy Future for us.

Sincerely

Andrew Heath

Andrew Heath
Managing Director
Enviromate Commercial Pty Ltd.