



TOTAL ENVIRONMENT CENTRE

Submission by

Alternative Technology Association

on

***Discussion Paper 5 – Treatment of Solar
Credits RECs under the RET***

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By Email to: RET@climatechange.gov.au

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1.0 Introduction

The Alternative Technology Association (ATA) welcomes the opportunity to respond to the Department of Climate Change's Discussion Paper 5 – The treatment of 'Solar Credits' Renewable Energy Certificates under the RET.

A representative of consumers in the renewable energy marketplace, the ATA is a not-for-profit organisation established in 1980 to empower our community to develop and share sustainable solutions and to promote the uptake of sustainable technologies. The organisation provides service to over 5,000 members nationally, who are actively engaged with small scale renewable energy, energy efficiency and the national electricity market.

This submission has been endorsed by the following organisations:

- Total Environment Centre; and
- Environment Victoria.

1.1 Recommendations

The main recommendations to arise from this submission are:

- Recommendation 1: The ATA calls for all RECs created through the Solar Credits mechanism to be made additional to the annual RET targets.
- Recommendation 2: The ATA strongly supports Option 1 as the preferred mechanism for dealing with the Solar Credits multiplier. The ATA would also support a modified version of Option 3 that included an annual 'true-up' of RET targets after a five-year target forecast has been implemented.
- Recommendation 3: The ATA repeats our call for COAG to strongly consider the implementation of nationally consistent, gross feed-in tariff for the development of the demand-side generation sector.

Our basis for these recommendations and our response to the specific questions outlined in Discussion Paper 5 are contained below.

2.0 RET Adjustment for Solar Credits RECs

Question 1: *Should annual targets under the RET be increased to offset the additional RECs created by the Solar Credits multiplier mechanism?*

Consistent with previous RET submissions from 2009, the ATA's strong view is that the RET's annual target should be increased to offset all RECs created under Solar Credits mechanism.

The distinction of note here is that ATA is calling for all five RECs created under the Solar Credits scheme to be additional to the annual targets (i.e. not just the four 'phantom' RECs). The basis for our view here is as follows.

2.1 Additionality

As one of a handful of community organisations representing 'consumers' (as opposed to industry) in the renewable energy marketplace, ATA is better placed than most to understand and convey the motivations of householders and small scale renewable energy investors.

Whilst ATA supports the RET as a mechanism to drive investment in renewables, its biggest disincentive from a consumer perspective is that of its inability to allow investors in small scale renewables to achieve additionality – i.e. for their investment to actually go beyond the mandated targets of liable parties (i.e. that will be achieved in any event).

The greatest disappointment to a householder when investing in small solar or small wind is to discover that once their RECs are traded, they are purchased by liable parties as part of mandatory requirements that would have been met anyway – whether that householder installed their system or not. Once fully understood by the consumer, many of them see this as simply 'helping electricity retailers achieve their targets', as opposed to actually making an additional difference on environmental grounds. ATA believes this is a valid point.

Numerous organisations, including the Department of Climate Change, have made the point that this issue of additionality from small scale technologies is very minor in the overall workings of the RET. ATA's view is that this issue is about consumer incentive.

As an independent provider of information and advice to both our membership and the general public, the two most common questions we are asked with respect to renewable energy investment are:

1. Will my investment lead to additional renewable energy?
2. Will my investment lead to additional emissions reduction?

As it currently stands at the moment, investment in small scale renewables through the Solar Credits scheme not only fails to achieve additional investment in renewable energy, it actually reduces the amount of additional renewables deployed and draws investment away from other generation that would not dilute the annual MWh targets achieved (e.g. large wind or large solar).

No matter how small this impact may be, from the consumers' perspective, this is a significant disincentive to invest. As highlighted through previous submissions, a 2007 survey by the ATA of over 1,300 individuals' motivations for installing small scale solar found that 78% cited the desire to have a positive impact on the environment as one of their primary motivations for investing¹.

2.2 Impact on Scheme Cost

With regards to the impact on scheme cost (as highlighted by the Department in Discussion Paper 5), ATA cannot see how this is a significant issue. The Discussion Paper states:

"Solar Credits are not expected to have a significant impact on the level of renewable energy generation under the RET." (page 4)

If the number of RECs created and traded through the Solar Credits scheme is not likely to be significant, then it stands to reason that any adjustment of the annual targets to account for Solar Credits RECs will have only a minor impact on the cost of the scheme. And in the context of the scheme costs incurred by the quadrupling of the overall RET target (as already achieved on 20th August 2009), the likely cost impact from any Solar Credits adjustment would be minor.

Further, a point that seems to have been overlooked in Discussion Paper 5 is the potential impact of the Solar Credits multiplier on the REC price. It is very likely to at least some extent that the Solar Credits multiplier is having (and will likely continue to have) a downward effect on the REC price (admittedly not as significant as the current REC oversupply in general). To some extent therefore, the multiplier, without annual target adjustment, is likely to artificially keep the cost of the RET to end-electricity consumers lower than it otherwise would be.

Recommendation 1: The ATA calls for all RECs created through the Solar Credits mechanism to be made additional to the annual RET targets.

¹ ATA (2007) *The Solar Experience - PV System Owners' Survey* [Available online at: <http://www.ata.org.au/projects-and-advocacy/solar-system-owners-survey>]

3.0 Mechanism to account for Solar Credits RECs

Question 2: *If RET targets are increased to offset the additional RECs created by the Solar Credits multiplier, which mechanism for achieving this would be suitable? In particular, views are sought on the appropriateness of:*

- *an annual review of the targets; or*
- *a review in 2015, once the Solar Credits has phased out; or*
- *adjustment of targets for the period 2010 to 2015 based on current projections of Solar Credits uptake, followed by a ‘true-up’ of targets in the period 2016 to 2020.*

3.1 ‘Certainty’

An overarching theme in the Discussion Paper regarding the potential mechanism to deal with Solar Credits RECs is that of ‘certainty’. ATA would like to focus on this issue specifically prior to commenting on our preferred mechanism.

It would appear to ATA that ‘certainty’ with respect to the potential solutions for the Solar Credits multiplier is really an issue for the end-electricity consumer (i.e. by how much the cost of the scheme will increase).

Any adjustment of annual targets to account for Solar Credits RECs – whether that be conducted annually; at the beginning of the five year period; or at the end of the five year period; will have broadly the same positive outcome for renewable energy investors (large or small scale) – that is to increase the opportunity to trade RECs.

In this regard, the ATA is concerned by a number of the comments on page five of the Discussion Paper, most notably:

“The introduction of a new periodic review process and the knowledge that annual RET targets would change each year for a number of years could negatively impact on investment – particularly if there is significant uncertainty around the likely pattern of Solar Credits uptake. Investors in the renewable energy sector have undertaken commercial decisions based on the current policy settings, which is why the impact of including new technologies on existing technologies is a major consideration of this review. This issue was highlighted in many submissions to the review.” (page 5)

ATA does not follow the logic of the above paragraph. Whilst we agree that ‘frequent adjustment of annual targets could add to uncertainty around the size of the market for renewable energy’, there are two points to make here:

1. The overall incentive provided under the Solar Credits scheme still represents a very low return on investment (and therefore payback) for owners of small scale renewables. And given the absence of gross feed-in tariffs (FiTs) in most states (and the ineligibility of small wind for FiTs outside of NSW), it is difficult to see how SGU investment will significantly increase until the industry achieves substantial cost reductions.

2. The only negative effect of adjusting the annual RET targets to offset for Solar Credits is the overall cost impact on the scheme. Investors in the renewable energy sector (whether they be large wind or other renewables developers or SGU proponents) will only be advantaged by any annual target adjustment – as this will put upward pressure on the REC price and will mean greater ‘room’ within the fixed REC market for each of the eligible technologies. To suggest that renewable energy investors will somehow be disadvantaged by annual target adjustment to offset for Solar Credits is erroneous.

Ultimately, renewable energy investors will adapt their commercial decisions based on the altered policy arrangements, as they have done so in response to this continually changing policy landscape over the past few years.

The final two lines in this paragraph however appear to relate to a separate issue – that of incentivising additional small scale technologies through the RET (or through the Solar Credits scheme). Incentivising new small scale technologies and annual RET target adjustment to offset for Solar Credits are two completely separate issues and should not be confused.

The former is a policy direction that will compromise the commercial decisions of existing renewable energy investors (and the ATA made its views known on this approach as part of our response to the first three discussion papers). The latter however does not in anyway disadvantage renewable energy investors – and the ATA suggests that these two issues not be confused, or for one (i.e. the former) to be used to justify inaction on the other (i.e. the latter).

3.2 Preferred Mechanism

Of the three options for adjusting the RET target that have been proposed, ATA prefers Option 1, as this appears to represent the simplest and most straight forward way of dealing with the Solar Credits issue.

Whilst Option 3 would bring forward potential benefits in terms of scheme output, it may be difficult to predict uptake given the influence of, and potential change in, state-based feed-in tariffs over the next five years. Should the Department be strongly considering Option 3, ATA would support a compromise that saw an annual ‘true-up’ of targets after the initial five year forecast was implemented.

Specifically, ATA does not support Option 2 as by delaying any target adjustment until 2015 and beyond, this option does not address the short – medium term impact of the current policy setting.

<p>Recommendation 2: The ATA strongly supports Option 1 as the preferred mechanism for dealing with the Solar Credits multiplier. The ATA would also support a modified version of Option 3 that included an annual ‘true-up’ of RET targets after a five-year target forecast has been implemented.</p>
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4.0 Broader Issues

From a broader perspective, the ATA maintains our long held view that the RET is not the best mechanism by which to subsidise the capital cost of demand-side generation technologies (or indeed energy efficiency technologies). Specifically, a revenue source, such as a gross FiT that provides a fixed price per kWh that is additional to any mandated Government targets (i.e. the RET) provides the greatest certainty and incentive for consumers to invest.

Recommendation 3: The ATA repeats our call for COAG to strongly consider the implementation of nationally consistent, gross feed-in tariff for the development of the demand-side generation sector.

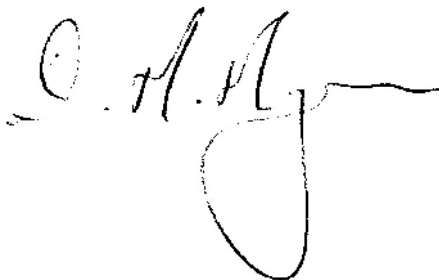
Indeed, as pointed out by numerous consumer and industry advocates in the previous RET submissions from October 2009, the RET is to some extent currently dysfunctional, in that it is failing to sufficiently encourage investment in large scale renewable energy assets, and requires amendment to ensure that large scale renewable electricity generation can be deployed in a timely and effective manner over the next decade.

Finally, we note the intention by the current Rudd Government to focus on energy efficiency policy in 2010. We applaud this commitment as ATA views the potential of energy efficiency to complement and offset cost increases associated with renewable generation policy as significant. We look forward to engaging with the Government's Energy Efficiency Taskforce on these issues during the coming year.

5.0 Further Contact

Thank you again for the opportunity to submit to this review and feel free to contact us should you have any questions regarding the content of this submission.

Yours sincerely,



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