



Submission to

*Enhancing the Renewable
Energy Target Discussion Paper*

Moreland Energy Foundation Ltd
Alternative Technology Association

Introduction

Moreland Energy Foundation Limited (MEFL) and the Alternative Technology Association (ATA) welcome the opportunity to provide comment on the Department of Climate Change and Energy Efficiency's *Enhancing the Renewable Energy Target Discussion Paper*, March 2010.

MEFL is an innovative not-for-profit organisation established by the City of Moreland in 2001 to reduce greenhouse emissions. MEFL works within and beyond the Moreland community to implement a range of energy efficiency and greenhouse gas abatement programs, including behaviour change programs, research and demonstration projects and advice and information services.

Based on our expertise in this field, MEFL has been engaged to deliver a range of consultancy projects for all levels of government. MEFL is currently developing a number of large-scale demonstration, engagement and enterprise projects as part of the Moreland Solar City initiative, a partnership with the City of Moreland, Victorian Government and Commonwealth Government, under the Federal Solar Cities project.

ATA is a community-based not-for-profit organisation representing consumers in the renewable energy marketplace. The organisation was established in 1980 to empower our community to develop and share sustainable solutions and to promote the uptake of sustainable technologies. The organisation currently provides service to over 5,500 members nationally, who are actively engaged with small scale renewable energy, energy efficiency and the national electricity market.

The proposals, recommendations and intentions outlined in this submission have also been endorsed by Environment Victoria.

Key Recommendations

- Recommendation 1:** That the SRES mandate a fixed \$40 / MWh be delivered to consumers of eligible small generation units (SGUs) and solar water heaters, without the ability for SREC suppliers and liable parties to establish separate contracts for trading SRECs at less than \$40 / MWh
- Recommendation 2:** That a funded SREC clearing house be established, utilising a body such as the *Australian Carbon Trust*, to purchase SRECs from SGU and solar water heater installers / proponents, and to carry the SREC holding cost for the quarterly period
- Recommendation 3:** That the cut-off date for SGU and solar water heater RECs to be eligible for surrender against the LRET be brought forward to 30 June 2010
- Recommendation 4:** That annual LRET targets be increased by an amount equivalent to the additional RECs entering the market from proposed forward contracts arrangements

Individual/community voluntary action and issues of additionality

As outlined in our previous submissions on changes to the Renewable Energy Target, MEFL and ATA firmly believe that the integrity of the Renewable Energy Target is compromised by the existence of the Solar Credits multiplier mechanism and the creation of ‘phantom RECs’. Further, proponents of small-scale generation technologies receiving RECs under the existing Solar Credits scheme are actually leading to a reduction in the amount of renewable electricity generated in Australia – clearly not their intention.

Many of MEFL’s constituents and ATA’s members are also supporters of large-scale renewable energy and have expressed their concerns with the delay in the deployment of large-scale renewable energy projects, resulting from the oversupply in RECs from small-scale renewable energy technologies and subsequent suppression of the REC price.

Consequently MEFL and ATA broadly support the changes proposed in the Paper, with specific comments on some aspects of concern outlined below.

Individual/community perspective

There can be little doubt that the primary motivation for the majority of people installing small-scale renewable energy generators is to increase the quantity of renewable energy installed in Australia, and the related environmental benefits that this brings in terms of reduced greenhouse gas emissions. For example, a 2007 survey by the ATA of individuals’ motivations for installing solar PV SGUs found that 78% of the 1,300 survey participants cited the desire to have a positive impact on the environment as their main motivation for taking action¹.

Unfortunately, (or to the dismay of individuals and community groups) ‘phantom RECs’ created under the Solar Credits scheme have been completely negating this positive impact, and as stated will actually *reduce* the amount of renewable installed in Australia. The absurdity of the current situation is highlighted by the fact that under existing Renewable Energy Target arrangements anyone installing a small generation unit (SGU) will be reducing the amount of additional renewable energy produced in Australia by up to four times the life-time generation of their system, as a result of the Solar Credits ‘multiplier’.

It is our firm belief that the reason there hasn’t been a drop-off in installations of SGUs since the introduction of the Solar Credits scheme is due primarily to the complexity of the scheme, the interaction of the Solar Credit ‘rebate’ to households, RECs prices and the RET, and the resulting community ignorance about this issue.

MEFL and ATA strongly believe that lack of knowledge of the consequences of community voluntary action should not be grounds to continue what is inherently a flawed scheme, and people should be both aware of the consequences of their choices, and confident that their individual voluntary action makes a significant positive difference to Australia’s renewable energy generation and greenhouse gas emissions reductions.

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

Failure to recognise individual/community perspective

In outlining Solar Credits arrangements², the Discussion Paper (the Paper) fails to provide any mention of the issues surrounding additionality or individual voluntary action. In fact, the entire Paper fails to mention the impact of the proposed changes on individuals and communities, or concerns with the current arrangements. This omission creates the impression that the proponents, adopters and installers of renewable energy technologies are peripheral to the scheme, when in fact issues impacting these stakeholders should be a major consideration.

Conversely, impacts on the changes to electricity retailers and liable parties are referred to incessantly throughout the Paper. MEFL and ATA implore the Department to rectify this imbalance in considering proposed changes to this scheme, and indeed in all future considerations of incentive mechanisms impacting on individuals and communities.

As a result, we welcome many of the proposed changes outlined in the Discussion Paper, call on the Government to ensure that the removal of small-scale technologies from eligibility for LRET occurs as soon as possible, and implore the Department to consider the impact of these changes on individuals and communities.

Specific comment on the Discussion Paper

5.3.1 Establishing a clearing house mechanism

Recommendation 1:	That the SRES mandate a fixed \$40 / MWh be delivered to consumers of eligible small generation units (SGUs) and solar water heaters, without the ability for SREC suppliers and liable parties to establish separate contracts for trading SRECs at less than \$40 / MWh.
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MEFL and ATA strongly support the concept of the split large and small scale markets, and the fixed price proposal for the SRES. We are concerned however by the proposed voluntary clearing house.

As representatives of consumers of small scale technologies, we are very familiar with the needs of this market participant and the desire by consumers for financial certainty with respect to investment returns and payback periods.

In principle, the SRES would be an up-front feed-in tariff (i.e. a fixed price per kWh generated [or avoided] over five, ten or 15 years). Indeed, in announcing the proposed SRES mechanism, the Minister for Climate Change and Energy Efficiency has stated³:

“It will provide a fixed price of \$40 per megawatt hour of electricity produced, providing direct support for households that take action to reduce emissions.”

² Page 5, DCCEE *Enhancing the Renewable Energy Target Discussion Paper* March 2010

³ Minister for Climate Change and Energy Efficiency, 2010. *Enhanced Renewable Energy Target Scheme*, Joint Media Release [12 March 2010] <http://www.climatechange.gov.au/minister/wong/2010/media-releases/February/mr20100226.aspx>

“Under this fixed price, a Sydney household that installs a 1.5 kilowatt solar panel system in 2011 will benefit from an upfront subsidy of \$6200. If the same household decides to install a typical solar water heater they will receive \$1200 in support under the SRES.”

MEFL and ATA strongly support this fixed price principle and the upfront nature of the incentive.

With respect to the fixed price, however, it isn't clear which party the \$40 / MWh is applicable to. Whilst the Minister's public statements refer to a specific dollar value being rewarded to system purchasers in various states (zones) based on \$40 / MWh, the Paper contravenes this with the following statements:

*“SRECs are likely to be traded before the acquittal date at the \$40 value, **less** the ‘cost of carry’”.*

“The obligation is a guaranteed payment, backed by Commonwealth legislation, of \$40 per SREC upon acquittal.”

MEFL and ATA seek clarification on which market participant the \$40 / MWh price is directed toward, as we will need to advise our members and the general public as to the precise value of the incentive to the consumer.

More broadly however, the consideration of a ‘voluntary clearing house’ however is in our view incompatible with the delivery of a fixed price incentive through the SRES.

A voluntary clearing house will allow SRES liable parties and SREC suppliers to establish ‘off-market’ separate contracts for the trading of SRECs. The incentive for an SREC supplier to enter into such a contract, outside of the formal clearing house, is obviously increased liquidity, thereby reducing the cost of carry.

However, SRES liable parties will have no financial incentive to purchase SRECs in advance of their mandatory obligations under the clearing house (potentially annually or quarterly). The only incentive for a liable party to establish a separate contract with an SREC supplier for more frequent SREC purchase, is if the supplier offers the liable party a reduced SREC price. Ultimately, this reduced SREC price will be passed on to the consumer in the form of an increased retail system price, thereby negating the fixed price certainty proposed under the SRES.

Ultimately should the voluntary clearing house materialise, MEFL, ATA and other similar consumer based organisations will not be able to advise their members, nor the general public, that the SRES delivers the consumer a guaranteed \$40 / MWh fixed price incentive.

MEFL and ATA's view continues to remain that a certificate trading system and a fixed price incentive are mutually exclusive. The only way to achieve price certainty is to specifically regulate for it, and to disallow separate market contracts from being established.

Whilst certain parts of the energy industry (and no doubt Government) will continue to argue that a certificate system leads to cheaper transaction and overall scheme cost (and therefore that the ability to establish off-market contracts should be retained), this view does not hold up to scrutiny based on

international evidence. Fixed price incentives such as feed-in tariffs, continue to deploy renewable energy cheaper than certificate based quota systems that allow for price volatility⁴.

(It should be noted that in the context of Australia’s current position with the RET, this is not an argument for replacement of the entire scheme with a feed-in tariff, but a strong argument supporting the delivery of the SRES fixed price incentive to consumers, as indicated by the Government’s proposals. The allowance of a voluntary clearing house will prevent this fixed price incentive from being realised.)

5.3.3 Ensuring the timely purchase of SRECs

Recommendation 2: That a funded SREC clearing house be established, utilising a body such as the *Australian Carbon Trust*, to purchase SRECs from SGU and solar water heater installers / proponents, and to carry the SREC holding cost for the quarterly period.

MEFL and ATA have serious concerns around issues created by the potentially-significant time lag between SREC creation and the obligation to surrender. As highlighted above, there is uncertainty in the Paper about whether the mandated \$40 / MWh SREC value is the price paid to the creator of the REC, such as a homeowner installing a solar hot water or PV system, or the price paid by the liable party.

What is clear is that this price won’t be the same, as highlighted in section 5.3.3 of the Paper, which states⁵:

“SRECs are likely to be traded before the acquittal date at the \$40 value, less the ‘cost of carry’”

The longer the period between creation and surrender, the greater the ‘cost of carry’ and hence the lower the rebate paid to the solar proponent. We would therefore support the proposal for periodic surrender, and for this period to be set at a maximum of three months.

We accept the need to restrain transaction and administration costs for retailers. However that needs to be balanced with the desire to reduce the expense associated with the ‘cost of carry’, ensuring lower overall scheme costs and greatest financial benefit to solar energy proponents. We strongly believe quarterly cycles achieve a suitable balance between economies and transaction costs.

⁴ One of the primary examples of this is the cost per installed MW of on-shore wind energy delivered by the German feed-in tariff scheme as compared with the British certificate trading system - the *Renewables Obligation* (RO). Economic analysis undertaken by Toke, D (attached) suggests that between 2001 and 2004, the German feed-in scheme deployed on-shore wind per MW almost 30% cheaper than the British certificate scheme. On the issue of effective competition in green certificate markets, Toke states:
“The electricity supplier [i.e. retailers] tend to take a large ‘cut’ of the ROCs [i.e. RECs] values in return for what are, in effect, long term, relatively (or actually) fixed price contracts. Hence a key point to remember is that market-based schemes like the RO do not leave prices to a competitive market for green electricity certificates. Rather, they make electricity suppliers [i.e. retailers] responsible for deciding the terms of contracts under which the renewable generators need to sell their electricity.”
[Page 282, Toke D, 2006 ‘Renewable Financial Support Systems and Cost-Effectiveness’ [Journal of Cleaner Production](#), Volume 15, Issue 3, 2007, Pp 280-287]

⁵ Page 15, DCCEE *Enhancing the Renewable Energy Target Discussion Paper* March 2010

Establish a funded SREC Clearing House

Even with quarterly surrender cycles, there will be some ‘cost of carry’ to be borne. Indeed, for small businesses installing renewable energy systems, issues around cash flow are of vital importance. As such, the ‘cost of carry’ for these businesses may be greater than larger businesses with substantial resources, and hence they may be forced to sell SRECs at a significant discount to the \$40 mandated value, even within quarterly surrender cycles.

MEFL and ATA propose the establishment of a rolling fund to allow the SREC Clearing House, or a body such as the *Australian Carbon Trust* linked to the SREC Clearing House, to purchase SRECs from installers / proponents at \$40 per SREC and carry the cost of holding the RECs for the period between creation and the quarterly obligation to surrender. Liable parties could then purchase the SRECs from the Trust, refinancing the fund for the following the quarter.

We believe the establishment of a rolling fund to provide an avenue for creators of SRECs to sell them immediately following creation, and to absorb the ‘cost of carry’ through to the quarterly obligation period, will provide the lowest-cost, most efficient Clearing House mechanism for SRECs.

7.1 Use of existing / banked RECs

Recommendation 3: That the cut-off date for SGU and solar water heater RECs to be eligible for surrender against the LRET be brought forward to 30 June 2010.
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MEFL and ATA are concerned about both the current oversupply of RECs delaying the deployment of large-scale renewable energy projects, as well as ensuring consumers achieve additionality with their investment in renewable energy technologies. As a result, we strongly support the suggestion proposed in the Paper that, “the cut-off date for RECs from small-scale technologies to be banked and eligible for the LRET could be brought forward to 30 June 2010”⁶.

The two concerns with this option presented in the Paper surround the liquidity of the RECs market and the delay between SREC creation in the second half of 2010 and the first obligation to surrender date in April 2011.

As discussed, and no doubt highlighted in numerous submissions, there is likely to be a significant oversupply in RECs in the early years of the LRET, and thus liquidity in the REC market seems highly unlikely to be an issue. Some industry estimates put the general REC oversupply by the end of 2010 at between 17 and 21 million RECs – potentially enough to satisfy LRET annual targets until at least 2014. A favourable option to MEFL and ATA to deal with this REC oversupply issue would be the consideration of an increase to the ‘soft’ ramp-up of annual RET / LRET targets over the first five years (i.e. from 2011 to 2015).

What is of greater concern is the commissioning of projects being delayed due to a low REC price as a result of the oversupply in RECs. Bringing forward the cut-off date for the eligibility of RECs from small scale technologies for the LRET scheme would, at least in part, alleviate this significant oversupply issue.

⁶ Page 19, ibid

Changes in liable party obligations

Bringing forward the cut-off date wouldn't involve changes to liable entity obligations part way through the 2010 compliance year, merely altering the eligibility of small-scale renewable energy for participation in the LRET.

This change will result in the removal of June-to-December-2010 SGU and solar water heater RECs from 2010 eligibility; however this only partially compensates for the recent flood of RECs onto the market due to increased incentives from other government programs – such as stimulus for solar hot water units installed under the *Energy Efficient Homes Package* – which have led to a steep decline in the REC price over the past nine months.

It would be somewhat cynical for electricity retailers and other liable parties to complain about uncertainty and changing rules which *may* lead to a reduction in supply of RECs, when a significant oversupply already exists, leading to a depressed REC price as a result of other changes to government incentives and programs.

MEFL and ATA believe that the issue of the time delay between creation of SRECs over the second half of 2010 and the obligation to surrender in April 2011 can be addressed by the creation of a funded SREC Clearing House, as outlined above. Whilst this would involve changes to the REC registry and the creation of such a fund, we believe this issue is of significant urgency to establish temporary arrangements to ensure this happens with urgency. The *Australian Carbon Trust* could provide an interim measure through which to do this.

Additionality

We strongly believe that the principle of additionality for consumer action on climate change is one which must be supported. Throughout the debate on the proposed CPRS legislation, issues of additionality and voluntary action received increasing attention, to the point at which it resulted in the creation of the Australian Carbon Trust and changes to the legislation to account for voluntary action in setting future baselines.

Similarly, additionality and voluntary action are of significant concern with regard to solar hot water heaters and small generation units, and the wider community is becoming increasingly aware of both the concerns with the Solar Credits aspect of the present RET scheme and issues of additionality with solar water heaters.

MEFL and ATA call on the Department to recommend the bringing forward of the cut-off date for REC eligibility to July 2010, as proposed in the Paper and above, in order to ensure issues of additionality and REC oversupply are addressed as soon as possible.

7.2 Treatment of existing forward contracts

Recommendation 4: That annual LRET targets be increased by an amount equivalent to the additional RECs entering the market from proposed forward contracts arrangements
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MEFL and ATA are also concerned by the proposed treatment of existing forward contracts. This proposal is contrary to the entire intention of the *Enhancing the Renewable Energy Target Discussion Paper* – to prevent RECs created by solar water heaters and SGUs from diluting the large scale renewable energy target.

Allowing forward contracts for SGU and solar water heater RECs post 1 January 2011 to flow into the LRET is contradictory to the principle of separating the large and small scale markets and will mean that consumers are still likely to limit investment in utility scale projects across the country.

In addition, an individual installing a small generation unit, such as a rooftop PV system, in the understanding that they are leading to an increase in renewable energy in Australia will have no way of knowing whether their supplier is engaged in one of these forward contracts, and thus whether their system will achieve additionality or in fact lead to a dilution of the LRET and hence a *reduction* in renewable energy installed, as outlined above.

Further, it is impossible for Government or other parts of the industry to know the volume of SGU and solar water heater RECs that comprise a forward contract established prior to 26th February 2010. The potential impact on the proposed LRET could be significant, and could continue to stifle utility scale deployment for some time to come (in addition to the problems mentioned above with respect to the general REC oversupply in the market). This is a significant political risk for the success of the Government's LRET / SRES policy.

Undoubtedly, liable parties will argue disadvantage on the basis that some of these existing SREC forward contracts will have been established for more than \$40 / MWh. We believe this argument should be viewed in the context of the REC price over the past six to nine months, and the ability of liable parties to either establish forward contracts for significantly less than \$40 / MWh during this time, or utilise the significantly reduced prices during this time in the RET spot market.

MEFL and ATA believe the oversupply issue, along with the treatment of existing forward contracts, needs serious consideration in order to ensure that:

- consumers of small scale technologies can achieve their additionality goals; and
- deployment under the LRET does not continue to be stifled.

The Paper proposes the registration of 'relevant pre-existing contracts' for SGU and solar water heater RECs in order to allow RECs specified under those contracts to be surrendered against the LRET. Given the unknown quantity of SRECs tied up in these forward contracts, their potential to cause continual stifling / distortion of the LRET market, and the impact upon individuals' aims of achieving additionality, MEFL and ATA propose that the LRET target be adjusted upward in line with the additional RECs flowing into the market from forward contracts.

We propose a cut-off date of 1 January 2011 by which liable parties will be required to register their 'relevant pre-existing contracts' with the Regulator. Following this date, with the number of RECs covered by these contracts readily known, an adjustment of the annual targets over the period from 2012 to 2015 in addition to the increase to the 'soft' ramp-up of annual RET / LRET targets proposed above to address the oversupply issue.


Increasing annual LRET target by an amount equivalent to the additional RECs entering the market from the proposed arrangements for forward contracts will ensure that there is no dilution of the LRET target

by RECs from small-scale renewable energy targets – the exact intention of the changes proposed in the Discussion Paper. Further, individuals and communities will be assured that their actions will result in additionality beyond mandated targets rather than a dilution of them.

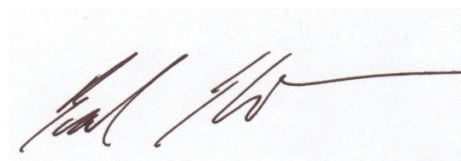
Further Contact

Feel free to contact either Damien Moyses (ATA) or Brad Shone (MEFL) should you have any questions regarding the content of this submission. Damien is available directly on (03) 9631 5417 or via email at damien@ata.org.au, and Brad Shone on (03) 9385 8516 or via email at brad@mefl.com.au.

Yours sincerely,



Damien Moyses
Energy Policy & Projects Manager
Alternative Technology Association



Brad Shone
Manager – Energy Strategy
Moreland Energy Foundation