Submission Template

COAG Review Discussion Paper 3 – Support for small-scale off-grid renewable generation

Overview

This submission template should be used to provide comments on:

COAG Review Discussion Paper 3 – Support for small-scale off-grid renewable generation

The purpose of this discussion paper is to provide an introduction to the key issues relating to support for off-grid renewable generation within the Renewable Energy Target (RET), and to encourage input on these issues from individuals, businesses and organisations to inform the review process

Stakeholders are asked to use the template provided to answer the questions posed in the discussion paper. The Department will also accept any other documents, further information, costing tables etc that are attached to the submission template.

Contact Details

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Confidentiality

All submissions will be treated as public documents, unless the author of the submission clearly indicates the contrary by marking all or part of the submission as 'confidential'. Public submissions may be published in full on the Department of Climate Change website, including any personal information of authors and/or other third parties contained in the submission. If any part of the submission should be treated as confidential then please provide two versions of the submission, one with the confidential information removed for publication.

A request made under the *Freedom of Information Act 1982* for access to a submission marked confidential will be determined in accordance with that Act.

Do you want this submission to be treated as confidential? Yes No

Submission Instructions

Submissions should be made by **close of business 30 October 2009**. The Department reserves the right not to consider late submissions.

Where possible, submissions should be lodged electronically, preferably in Microsoft Word or other text based formats, via the email address - **RET@climatechange.gov.au**.

Submissions may alternatively be sent to the postal address below to arrive by the due date.

Renewable Energy Sub Group Secretariat
Department of Climate Change
GPO Box 854, Canberra ACT 2601

For more information phone: 02 6159 7428

Off-grid renewable generation

Question 1: Solar Credits currently apply up to the first 1.5 kilowatts (kW) of capacity installed. Should Solar Credits or a similar 'REC multiplier' mechanism under the RET be used to provide further incentives for off-grid renewable generation? If so, what level of eligible capacity (such as 20 kW) should apply? How would this compare with the level of support under the RRPGP and what size 'REC multiplier' would be appropriate?

In WA SEA's view, the current Solar Credit scheme operates in a similar manner to a rebate and will also created market distortions that have had a significant negative impact on the market-trading price of RECs. Effectively the government has made market participants pay the price of the Solar Credit incentive, while simultaneously managing to reduce the value of the incentive that Renewable Energy generators had made investments to receive. It is expected that the Solar Credits will have a similar diluting effect on the REC value comparable to the impact seen by the inclusion of solar hot water systems. While this is beneficial to the Government in terms of not creating any financial obligation, it penalises the market for early adopters of Renewable Energy generation. Essentially, excess RECs are created in the market to subsidise future market growth at the cost of the future value of RECs. The long term effect of this will be to reduce the ROI for larger scale investment for renewable generation while supporting only one sector of the market., As such WA SEA does not support the continuation of the Solar Credit multiplier in creating the 'phantom' RECS, as this is applied to Renewable Energy generation, either on or off grid.

Furthermore, the Solar Credits predisposes communities to the selection of specific technologies for eligibility, rather than being renewable technology neutral and letting the remote generator make an unbiased decision based on the best technology for their circumstances and the local renewable resources that are appropriate for the location.

Should the Solar Credits program continue, we believe that for the purpose of equity, then off the grid applications should be eligible in the same manner as on grid applications. The caveat to this issue is that where remote communities will rely on centrally generated electricity (for the township for example), then the REC eligibility should be based on the standard on-grid capacity (1.5kV) multiplied by the number of dwellings (inclusive of any school or community facilities) to which the system will need to supply power. Furthermore, by applying an arbitrary limit to the maximum capacity would provide a differential treatment of substantially similar communities. For example, with a cap of 20kV, a community of 16 dwellings of 1.5kV each would be proportionally disadvantaged compared to one of 13 dwellings (24kV vs 19.5 kV), leading to a distortion on the efficiency of system installation in small communities reliant on small central generation systems.

As an alternative to the continuation of the Solar Credit multipliers, WA SEA is of the opinion that on-grid applications should be supported by a nationally mandated feed-in tariff (FiT). This would provide a return to those investing in small-scale renewable systems without creating price distortions which effect the whole electricity supply chain.

For off-grid applications, WA SEA would strongly support the re-introduction of the RRPGP program. It is our opinion that the re-establishment of this program would offset the high capital cost of remote power systems while maintaining a neutral market price influence on REC prices. It is not possible, without detailed information on specific systems and examples of these to compare Solar Credits with RRPGP funding, and this would also only be based on assumptions regarding REC pricing and payback periods. As REC prices are market driven, and supply currently outstripping demand driving prices downwards, any such analysis would be speculative at best.

Question 2: What other eligibility criteria should apply and what would be an appropriate process for phasing out the incentive?

WA SEA is of the opinion that the Solar Credit multiplier should be phased out by the beginning of the financial year commencing 1 July 2011. The Solar Credits should be replaced by a nationally mandated minimum gross FiT rebate available to small-scale renewable on-grid generators. The phase out of the Solar Credit System would reduce the multiplier to 2 for systems installed between 1 July 2010 and 30 June 2011. This would then be offset by the introduction of the FiT in the financial year commencing 1 July 2010.

While small-scale generators would also be eligible for RECs, they would not receive the benefit of phantom RECs which would remove market distortions, while still maintaining a subsidy to offset capital installation costs. Such a nationally mandated gross FiT would need to be scaled based on the size of the installation. WA SEA would suggest that this be set according to consumer type such as:

- domestic;
- Small businesses (maximum size to be determined);
- Commercial scale (minimum size to be determined)

In respect of off grid applications, the aforementioned return of the RRPGP program would be the most appropriate mechanism to encourage uptake of Renewable Energy technologies for remote applications.

Experience of the Renewable Remote Power Generation Programme

Question 3: Are the RRPGP program parameters still relevant if incentives for off-grid renewable generation are provided under the RET? Views are sought on:

- whether 1km from a main grid is an appropriate definition for remote 'off-grid';
- whether the $30,000 connection costs threshold is appropriate for sites that are considered close to a main grid; and
- whether support equivalent of up to 50 per cent of the cost of the renewable generation and essential enabling equipment is appropriate.

WA SEA, as a member based organisation, is not in a position to provide specific comment on the technical and financial eligibility issues such as distance and costs. However, we are in a position to provide specific comment on the issue of the level of capital expenditure a policy should support. WA SEA is of the opinion that the 50% capital subsidy provided by the RRPGP was an appropriate level of expenditure.

By setting the maximum allowable rebate for expenditure at 50%, this has a number of advantages over a fixed cost rebate or one that is subject to market price volatility. The advantages are:

- there is a minimum cost commitment by the investor, which encourages that investor to make the selection for the best long term solution, rather than the cheapest solution. A Higher level of investment means greater risk and therefore more care taken in selection of suitable solutions. The premise of this is that the cheapest solution is not always best for long term ROI and therefore a higher level of commitment by the investor creates a better long term outcome. WA SEA is of the considered opinion that lowest cost solutions are not always the best and lifecycle value should be an overriding factor.
- Higher rates of subsidy create distortions by alterations in consumer behaviour, often due to a lack of knowledge of RE technology. For example, the $8,000 Solar Rebate, encouraged the adoption of the cheapest product to minimise consumer costs, and a lack of consumer knowledge and ability to differentiate on quality and performance characteristics does not have significant influence on buying decisions. This led to a longer term market problem, where “fly by night” operators enter the subsided market at low cost, capture market share and exit when the rebate is no longer available. Ultimately it makes the market price driven, which reduces the industry value add and overall market profitability. Furthermore, long-term problems with cheaper products (longevity, performance etc.) can generate negative perceptions of the product and supply chain, devaluing the longer term future of the industry.

Cost of renewable generation

Question 4: Information is sought on the costs of different small-scale off-grid renewable generation systems for example in different geographical locations, in particular:

- the capital cost of the technology, including installation;
- annual running costs, including maintenance;
- the effective life of the system;
- the capacity factor of the system, if applicable; and
- how this compares to fossil fuel based generation (such as diesel).

Impact on existing eligible technologies and REC market

Question 5: Would providing incentives for off-grid renewable generation have a major impact on the deployment of existing eligible technologies?

Remote Indigenous communities

Question 6: What would be the wider economic and social benefits of renewable generation under the RET for remote Indigenous communities? How can these benefits be used to close the gap in Indigenous disadvantage?

Any other additional comments