Mr Paul Baxter
The Independent Competition and Regulatory Commission
GPO Box 296
CANBERRA CITY ACT 2601

March 4th 2010

Dear Mr Baxter,

Thank you for the opportunity to provide input into the Draft Report on the Electricity Feed-in Renewable energy Premium: Determination of Premium Rate.

General Comments

The Greens strongly support the ACT's Feed in Tariff (FiT) scheme as an effective mechanism for providing an incentive to encourage private investment in renewable energy generation, by delivering certainty to investors in the form of a guaranteed price over a fixed time. We also consider the FiT a key driver in stimulating industry growth in renewable energy generation.

With regard to determining the future premium price, the Greens support the general thrust of the Draft report that the premium should be set at an 'amount that is required to provide sufficient incentive to make the installation of renewable generation attractive against other, similar risk-free investments', however we would encourage that return on investment to be slightly higher than the standard return on a cash investment. In essence, we would prefer that people invest their money into solar panels rather than simply putting it in the bank.

We also support the premise that the premium price should be set at a level that does not excessively impact on the rest of the economy, nor provide excessive profits for those who do invest in renewable energy generation.

Setting the level for systems under 10kW

The key question then is what is the right level? The suggestion in the Draft Report that the premium be set at the 'minimum amount…' may not be sufficient to provide the necessary incentive for all potential generators. In addition, a dramatic cut in the premium rate only 12 months after the introduction of the scheme is likely to undermine public confidence in its operation, and could precipitate an element of the boom/bust cycle that has so plagued the development of the renewable energy industry in Australia.

To that end, whilst the Greens accept that a level of adjustment of the tariff is warranted for smaller systems, we believe the suggested change in the tariff to 37c/kWh for the next premium period is potentially too dramatic and disruptive for industry and consumer confidence, and any adjustment to the premium to deliver a more modest nominal rate of return on investment should be delivered over a longer period of time, rather than in one year.

Implications for systems between 10kW and 30kW

In the Draft Decision, the ICRC has undertaken modelling of the return on investment for various size systems under the current legislative framework of 100% of the premium tariff for systems sized 0-10kW and 80% of the premium tariff for systems sized 10-30kW.

That modelling indicated that small scale systems are currently disproportionately subsidised by the Federal Government, due to the fact that systems of 1.5kW can access five times the current REC price, and that this amount is a significantly higher proportion of the capital cost than it is of a larger system. Therefore small scale systems currently require a proportionately lower feed-in tariff to achieve the same level of return on investment as a larger system. However, the current legislative framework is currently such that larger systems receive a lower tariff.

The consequence of this is, that should the premium rate be lowered to bring the rate of return to an acceptable level for small scale systems, investment in systems between 10-30kW will be discouraged as in some cases there is no return on investment at all (see, for example, Table 9 at page 42).

Whilst we recognise it is not within the power of the ICRC to set different premium rates for different sized systems, the Greens have recommended in our submission to the discussion paper on Stage 2 of the Feed-in Tariff that the Government request modelling from the ICRC that makes clear the return on investment and proposes rates for different sized systems that attempts to equalise this return. Under the current model, if it was decided that a 7% return on investment is acceptable for a 1.5kW system, 30kW systems would not deliver any positive return on investment, and in fact would run at a loss. This would be an unacceptable outcome for the implementation of the current legislation.

Therefore, the ACT Greens recommend that the tariff for each sized system (and technology) is calculated within a framework that equalises the acceptable return on investment.

Your modelling has indicated that it may become necessary to amend the current legislation to change the percentage of the premium rate for systems between 10-30kW to ensure that investment in those projects doesn't dry up completely.

Conclusion

I would be happy to elaborate on these brief comments further if required. Please contact my office if you wish to discuss any points or have further questions.

Yours sincerely

Shane Rattenbury MLA
Greens Spokesperson on Energy, Environment, Climate Change and Water