

Two steps forward, one back for Australian solar

Policy | As one long-running policy saga finally draws to a close, a series of attacks on renewable energy support have offset any progress that had been made. Tom Kenning explores the latest setbacks and where the possibilities for progress may lie



Credit: Flickr/learn state forest

The long-disputed saga around Australia's renewable energy target (RET) has settled at last, bringing to an end 15 months of political wrangling that thwarted the progress of the country's solar energy industry. Things appeared to be looking up with a 200MW large-scale solar auction on the horizon in the wake of the Australian Renewable Energy Agency (ARENA) revealing its new funding plan. Nevertheless politics couldn't leave the industry alone, with sudden restrictions enforced on the investment capabilities of the Clean Energy Finance Corporation (CEFC), whose very role is to mobilise capital investment in renewable energy. This piece questions key players in the Australian market and industry bodies on whether the outlook is positive for the industry in a nation of abundant solar resources, the 'sunburnt country', or whether it is still hindered by the incumbent Coalition government.

The RET agreement is a compromise, having been reduced around 20%, from 41,650GWh to just 33,000Gwh by 2020, and prime minister Tony Abbott made it clear that he would have liked to cut the target further. Yet industry members agree that the final resolution did result in a noticeable

boost in sector confidence.

Jack Curtis regional manager, Asia Pacific at First Solar, which has developed PV projects in Australia, tells PV Tech Power that the RET agreement has improved investor sentiment, with the end of the uncertainty preferable to waiting even longer for an improbable higher target. However, one of the criticisms about the lower target was that it may not be large enough to accommodate both main renewable technologies; it could take around two years for solar to reach price parity with wind.

"One of the trends we are seeing is a much more active focus on trying to find a way for solar to comprise a larger percentage of the RET," says Curtis. "We've seen a lot more activity, not just from the usual suspects but also those that might have taken a less supportive view during the negotiations. We think that solar has a pretty credible price trajectory to make that interest worthwhile over the next two or three years."

Curtis also says that many projects, including some from First Solar were dependent on a deal being reached and a further six months of delays could have been the tipping point to abandoning those ventures.

Australian PM Tony Abbott is accused of being under the thumb of the coal lobby.

This is backed up by Darren Gladman, policy manager at the Clean Energy Council (CEC), the body that represents the clean energy sector in Australia, who says that some members with projects stuck in limbo had reported suddenly being able to seal power purchase agreements and gain financial backing directly as a result of the RET agreement.

Indeed soon after the deal was made in June, CEFC chief executive Oliver Yates said: "The market should now benefit from lower risk premiums for financiers, which in turn can lower the overall cost of developing new projects."

Bloomberg even reported interest from Chinese wind giant Xinjiang Goldwind Science & Technology to expand into solar via co-location of wind and solar farms. It was also claimed that this came as a direct result of the RET agreement.

The outspoken chief executive of industry body the Australian Solar Council, John Grimes, says that the government acted to "purposefully" disrupt and delay the agreement, for example by trying to include the burning of native wood waste in the target and insisting on biennial reviews.

"Having said that, we are back in business," Grimes adds. "The problem is the attacks from the Abbott government just haven't stopped."

The assaults continued this July, when just as the CEFC agreed a AUS\$100 million (US\$77 million) deal to help the rollout of the utility Origin's rooftop solar leasing scheme for households and businesses, Tony Abbott told the financing body that it could no longer invest in rooftop solar and wind projects via a draft mandate that was passed over for consultation. The CEFC responded with a moderated statement confirming that it was seeking legal advice on the matter and reassuring investors that existing deals would not be affected.

The news of government meddling

was unsettling for the industry, which had breathed a sigh of relief when the RET agreement was passed. Grimes says that the new restrictions came on top of another directive two months earlier which mandated the CEFC to double the rates of return it achieves on its investments. This meant the CEFC would have to rely on financing more established technologies, such as large-scale wind and small-scale solar, which are in the "sweet spot" for getting a higher rate of return, says Grimes. But of course these established technologies are now likely to be off limits for CEFC financing under the newly proposed limitations.

Grimes adds: "This one-two blow is a cynical exercise – a stitch up – designed so that the CEFC will fail. They are loading up the saddle bag of CEFC so it is not possible to win the race. It underlines the fact that the Abbott Government is not going to stop and that is extremely concerning."

Australia has a "very risk averse" capital market, Grimes adds, and although it has been considering investment into this renewables asset class for the first time, the CEFC was playing an important role in terms of educating investors about the opportunities available.

Curtis says: "Anything that looks to impede or constrain or undermine what was an established policy platform is only a negative thing."

It sends a negative message that these kinds of programmes can be fiddled with in a "fairly haphazard fashion", he adds, although it remains to be seen whether the CEFC will actually accede to the new government directions.

The political upheaval over the CEFC also coincided with plans by ARENA to proceed with a new large-scale solar auction. It said it was planning to provide AU\$80-100 million (US\$59-74 million) in support through the competitive funding round, which was likely to open in September.

The Government's rhetoric, at the time of the CEFC limitations, also turned surprisingly towards support for large-scale solar. On local radio, environment minister Greg Hunt said an approved RET would result in "increased and enhanced support for solar, particularly large-scale solar". Leaked plans also revealed government intentions to write to the CEFC to ensure "significantly increased uptake of large-scale solar and energy efficiency". Nevertheless, industry members widely agreed that this rhetoric was heavily directed by an anti-wind campaign, with Tony Abbott branding wind farms as "ugly and noisy".

Bloomberg New Energy Finance analysis

has estimated a further 8GW of large-scale renewables generation will be required to meet the 33,000GWh RET target, needing AU\$15 billion of investment. Of this around 2.6GW (33%) is expected to come from large-scale PV.

Industry members say that utility-scale solar will be the most impacted by the RET resolution, with prices falling dramatically worldwide and more deployment required in Australia to replicate that. Utility-scale will emerge, Grimes says, and this is helped by the certainty around the RET and the CEFC not being prohibited from investing in large-scale solar.

"Crossbenchers really are demanding large-scale solar, which means that the prospects have never been better," Grimes adds, "but the issue remains – when will the price pressure be such that the customers are willing to sign power purchase agreements for large-scale solar plants?"

The commercial-scale solar sector (<100kW), on the other hand, has become a more healthy industry. Gladman says that two years ago almost all rooftop solar was residential, with utility accounting for just 5% by volume one year ago. It now accounts for 25% with the CEC expecting to grow strongly in the coming two years.

"Economic fundamentals have just gotten better over the years," says Gladman.

In contrast, Curtis says commercial hasn't quite taken off as a function of "general procurement bias" on behalf of those that pay low electricity rates.

He adds: "While some interest has been driven by Corporate Social Responsibility (CSR) and green branding, it does not really go mainstream until it starts to appeal economically."

Solar is reaching a crossroads at a distributed level, Curtis says, where consumers can be given AU\$11-12 cents/kWh tariff levels, which can offset someone paying AU\$12 cents/kWh.

One sector, which came out almost unscathed by the lengthy RET review was residential solar, for which public support is so strong that Grimes says it is widely regarded as "beyond the reach of politics". He adds that the economics are compelling, with the likelihood that consumers will pay around a third of their normal energy bill over a 20-year period through rooftop solar installations.

Curtis says: "There has obviously been a significant uptake of residential solar during the previous five years [although] that growth trajectory will start to taper off as a function of natural demand drivers and



Tony Abbott

Credit: Flickr/Global Panorama (2)

policy constraints."

Looking at all three solar sectors, then, the outlook certainly appears to be positive in light of the RET review finally drawing to a close. What other government

meddling may occur remains to

be seen, however, Gladman cites the upcoming conclusion of the anti-dumping investigation in October, sparked by Australian panel manufacturer Tindo Solar, as a potential "spanner in the works" for the industry. The investigation was recently broadened beyond price margins and competition to include examining whether China's government policy constituted unfair support for its PV sector.

Gladman says: "Most of the panels used in Australia are brought in from China, and if there was a significant anti-dumping duty placed on panels, that could have a huge price impact on sales."

In any case, Grimes says a major story will be the rise of energy storage technology with 6kW LG batteries on sale for AU\$6,500, providing an attractive option for consumers, especially those with larger systems, who in one state, will lose their feed-in tariffs (FITs) at the end of the year.

While the Coalition government does not have a majority in the senate, which has thwarted its attempts to shut down ARENA and the CEFC, Grimes says there is a significant danger to the solar sector if the Abbott government is returned at the next election.

The biggest coal deposit in Australia has been discovered in Northern Queensland, the Galilee basin – an area roughly equivalent to the size of the UK – and Abbott is very keen for Adani Mining, a wholly owned subsidiary of India's Adani Group, to mine and export it to the world, says Grimes. With Abbott "completely captured" by the coal interest group, adds Grimes, he is doing everything he can to frustrate and retard the development of any alternative option and particularly renewable energy.

Much of Australia's coal is expected to be exported to India, but as a recent Deutsche Bank report suggests, reliance on India for imports could be foolhardy with total Indian investment in solar power expected to surpass that of coal by 2019/20.

Moreover, Grimes insists that Abbott's policies are doing political damage to the Coalition, given the strong public support for solar.

He adds: "The Australians have seen into the Prime Ministers heart and found it covered in coal dust." ■