A RET old mess

Australia | The Australian parliament is undertaking final deliberations on the fate of the renewable energy target, a key enabler in the country's recent solar boom. Colin Marrs assesses where the country's PV industry would be left by the watering down or scrapping of the RET

Not long ago, the future seemed bright for solar energy investment in Australia. In March last year, Greg Combet, Australia's former minister for climate change, confirmed that the country's 2020 renewable energy target (RET) would remain unchanged at 45TWh of output by 2020. Two months later, an analysis by global consultancy Ernst & Young purred: "With stable policy measures currently at the top of the wish list for every investor and developer trying to make long-term project decisions, it seems at least one policy-maker is intent on making dreams come true."

Less than 18 months on, Australia has slipped from fourth to 10th position in E&Y's monthly Renewable Energy Country Attractiveness Index. A surprise fall in overall demand for energy has left the sector oversupplied. But last year's election victory by the National-Liberal coalition led by Tony Abbott – hostile to government intervention in the energy market – has added rocket fuel to the market uncertainty.

On coming to power, Abbott's government immediately repealed the carbon tax, a levy on polluters passed by the Labor government and seen as totemic in the party's desire to rip up environmental regulations it said were holding back business. In May this year, the government announced its intention to abolish the Australian Renewable Energy Agency. Michael Barker, senior analyst at solar market research firm Solarbuzz, says: "The overall policy environment has been declining in terms of positivity towards solar."

Andrew Stock, councillor for Australia's Climate Council, says that attempts to undermine the previously bi-partisan political approach to renewables began well before the election. He says: "The three large integrated generator-retailers – Origin Energy, AGL and Energy Australia – led this push, lobbying through the media, industry bodies like the Business Council of Australia, and with the then opposition in the halls of parliament."

The Australian government first expanded the RET to the current 45TWh target in 2010. The scheme was split into two categories defined by the amount of power produced.

Source: Greenough River Solar Farm.

Changes to the RET would mean further large-scale PV power projects such as the Greenough River Solar Farm would be unlikely for many years.

The Large-Scale Renewable Energy Target (LRET) was required to deliver 41TWh of the target, while the Small-Scale Renewable Energy Scheme (SRES) would make up the remaining 4TWh. The overall aim is 20% renewables by 2020.

Aided by a generous feed-in tariff regime, a boom in small-scale renewable energy systems ensued. Demand for renewable energy certificates mushroomed, causing the big suppliers a problem – a surplus of REC certificates to meet their renewables obligations. Stock says this has led to their "refusing to sign new off-take contracts with renewable generation project developers for well over a year now".

Simultaneously, the large players have spent hundreds of millions of dollars buying large existing coal-fired generators at a time when such sources were facing much greater competition from renewables. Because solar plants can pump large amounts of electricity on sunny days, when air conditioning units are most in demand, the traditional providers are no longer able to push up their prices during peak periods. Stock says: "Solar PV output on previous high-demand summer days has reduced fossil-fuelled peak plant pricing power."

However, while this competition has driven wholesale prices down, the retail cost to consumers has remained stubbornly high. And in February, retail costs were cited as a major factor in the government's decision to announce a root and branch review of the RET regime. Environment minister Greg Hunt said: "We are a government that is unashamedly doing our best to take pressure off manufacturing and households through anything that can lower electricity prices."

Investor woes

Many in the renewables industry raised an eyebrow at this justification. In 2012, a senate committee had blamed the regulatory framework for perversely encouraging over-investment in the network infrastructure. Jack Curtis, vice president, APAC region, at PV thin-film giant, First Solar, is clear: "It is network charges, not renewable energy, that are driving up household electricity bills."

The announcement of the review, with the accompanying prospect of the RET being abolished, threw the large-scale solar investment market into turmoil. Figures released by Bloomberg New Energy Finance show that in the first six months of 2014, just US$40 million was invested in large-scale renewable energy, compared to US$2.691 billion during the whole of 2013.

In August, solar developer Silex Systems announced that it was suspending plans for a 100MW CSP station near Mildura in Victoria, citing "low wholesale electricity prices and the uncertainty surrounding the Renewable Energy Target". Developer EnviroMission said it was holding back on developing its new solar tower technology in the country until "certainty is restored" to the RET. Stock says: "There are three projects ranging from 20MW to 60MW or so still under construction under previous contracts, but once these are completed, it is unlikely future large-scale solar projects will be advanced for many years."

Share prices also plummeted. In June, solar and wind developer Infigen's managing director Miles George said of his firm's stocks: "Over the last 18 months or so the price was pretty steady around 27¢ to 30¢ and when the review was announced with possible outcomes the share price fell quite dramatically to about 20¢. This is because of concerns about whether the regulations would remain in place."

In its submission to the RET review panel, the Investor Group on Climate Change, a joint Australian-New Zealand body, warned: "While some of our energy investments have

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A Clean Energy Council campaign leaflet highlighting the impact of changing the RET.

already been weakened by deteriorating market confidence on the future of the RET, we expect that reducing the LRET would change market conditions in ways that were not foreseen when the expanded RET was introduced, with bi-partisan political support, and would further undermine our investment activities."

In August, US solar plant developer Recurrent Energy was reported as having shut its Australian office because of the uncertainty over the renewable energy target. However, in a statement it told *PV Tech Power* that it continues its "work on a range of potential project sites around the country" and has "simply reassessed our approach to staffing". Barker says a full-scale retreat has yet to materialise: "I think primarily firms are taking a wait-and-see approach at the moment."

Curtis says the worst dangers are faced by the domestic supply chain. "While international companies will come and go, what we find disappointing is that many of our local suppliers such as IXL Solar have invested a lot of time and money building a capability in this area and now seeing their business models under threat," he says. IXL Solar has a contract to manufacturer mounting structures for First Solar's Australian projects.

Small-scale impact

In the small-scale sector, the effect has so far been more limited. John Grimes, chief executive of the Australian Solar Council says "the impact on small scale has been a pick-up in inquiries". He explains: "People are keen to get in before any changes are made. These seem to be people who received quotes in the past but did not proceed."

Which is not to say that small-scale suppliers are relaxed about the RET review. A report produced by the REC Agents Association, which represents bodies trading in renewable energy certificates, found that 96% of the 3,800 solar businesses in Australia are small and medium sized businesses, and that uncertainty hangs over the livelihoods of the 21,000 Australians they employ. The report said: "If the RET is axed, demand for solar will fall by 40-50%, with a similar decline in the number of jobs in the solar industry. The axing of the RET could result in the closure of thousands of small and micro businesses."

In late August, the expert panel convened to conduct the RET review delivered its conclusions. It said that the RET was indeed exerting downward pressure on wholesale electricity prices. This might sound like an argument in favour of the scheme's retention, but the panel was not convinced that this was necessarily a positive development. It said: "Artificially low wholesale electricity prices can distort investment decisions in the electricity market and are unlikely to be sustained in the long term."

It also concluded that the costs of the RET made up 4% of electricity bill prices during 2012-13, but added that the effect on bills was likely to be neutral overall by 2030. It said that incumbent generators, electricity retailers and consumers would end up subsidising the renewables industry to the tune of A$22 billion if the RET continues unaltered. "The RET does not generate an increase in wealth in the economy, but leads to a transfer of wealth among participants in the electricity market," it said.

The panel narrowed its recommendations down to two options for the LRET. The first – a "grandfathering" option – would close the scheme to new entrants. This approach "avoids the costs to the community associated with subsidising additional generation capacity that is not required to meet electricity demand", it said. The second option would be to modify the LRET to introduce yearly targets corresponding to 50% of new growth. "Importantly, this approach would protect the broader community from the cost of subsidising unnecessary additional generation capacity if electricity demand continues to fall," it said.

On SRES, it said there was a case for closing the scheme immediately. This would reduce install rates of rooftop PV by at least 30%, according to the panel's modelling, but the market would recover to normal levels by the 2020s, it claimed. Alternatively, the government could end cross-subsidy while avoiding market damage by closing the scheme ten years early in 2020.

Although the report leaves the government with the clear option of completely abandoning the RET, unexpectedly it hasn't armed it with enough weaponry to make the job easy, according to Darren Gladman, policy manager at the Clean Energy Council. He says: "All the review essentially does is argue that the RET is a transfer of market share of fossil fuels to the renewable energy sector – which was actually the argument for introducing the RET in the first place. The government is left in a bit of a difficult position."

After this article went to press, ministers were expected to seek negotiations with other parties to secure the senate numbers needed to pass reforms to the renewables regulatory regime. It will have its work cut out. Labor has said it will not negotiate on the issue without the government rejecting the report's recommendations, while the Palmer United Party has vowed to support the existing arrangements.

Opposition politicians are under no pressure from the electorate to accommodate the government. In fact, a survey by the Climate Institute in June actually showed that 60% of the population believes the RET should be increased. Grimes says: "The government's plans to scale back the RET are dumb policy and dumb politics. We are the sunburnt country, with global leaders in solar research and development. Carving out solar makes no sense at all."

But even if the recommendations are not watered down and the RET is completely axed, there could be a glimmer of hope. Stock says rising energy bills could make the economics of domestic solar installation increasingly attractive, even without support from the RET. And as battery storage becomes cheaper, more households could disconnect from the grid altogether, he says: "This could well create new industry growth options, and will be even more difficult for the incumbent network and integrated fossil fuel generator-retailer companies to attack."

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