



# State Based Renewables Support

## Fiscal Mechanisms

**Ric Brazzale - Executive Director**

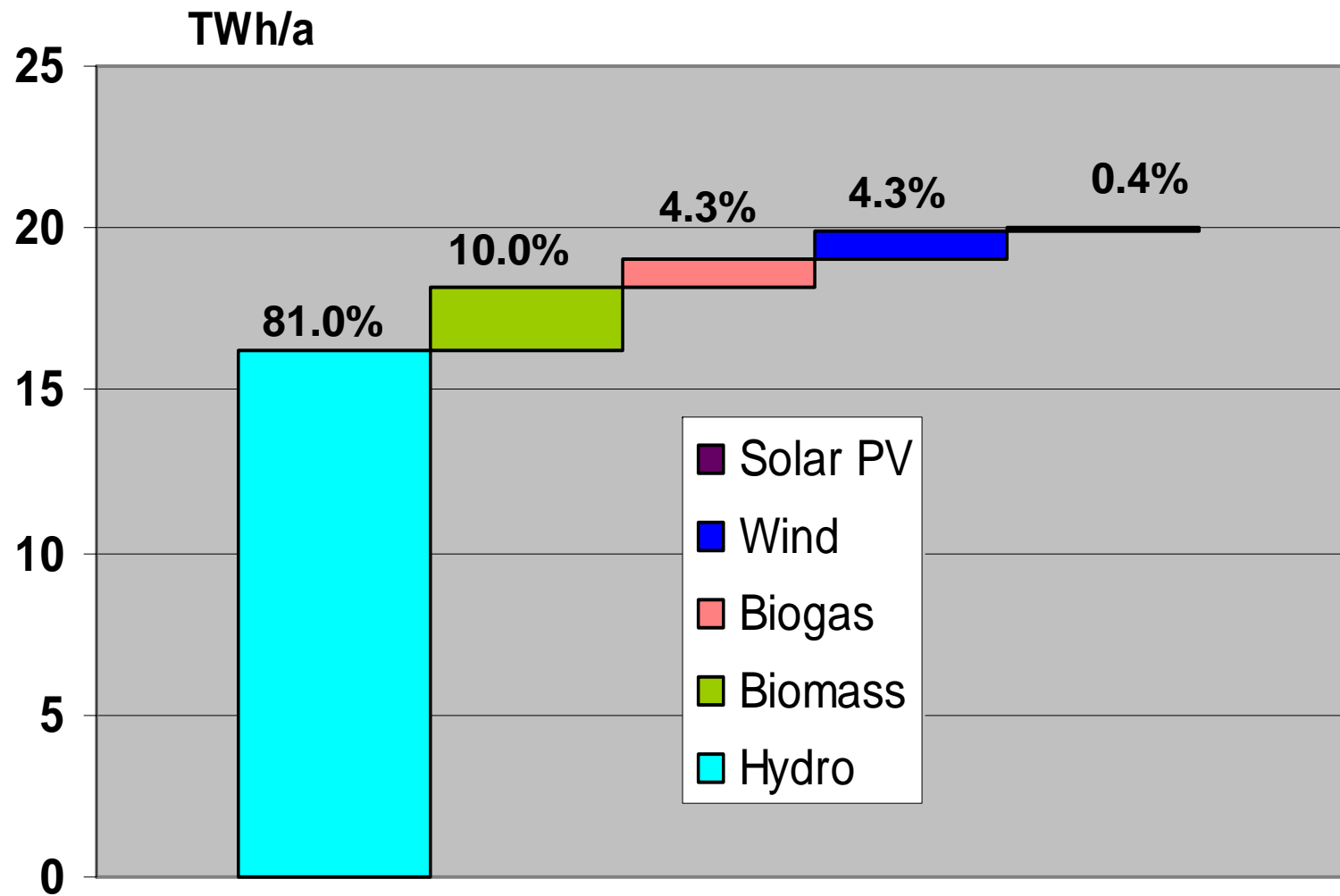
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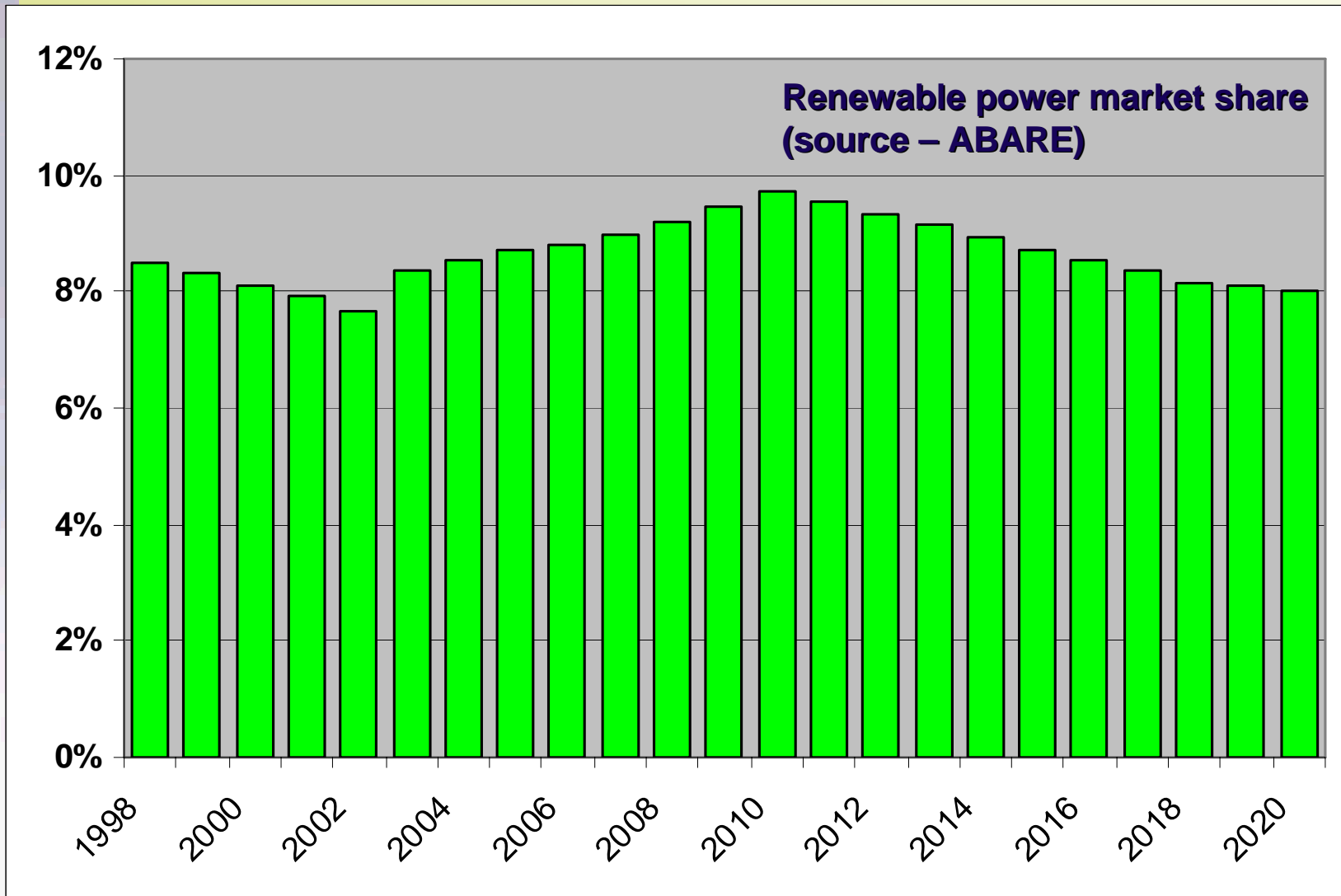
# **Content**

- **Current renewables position**
- **Industry development issues**
- **Assessment of Fiscal measures**
- **Green Power**
- **What might work for Australia**

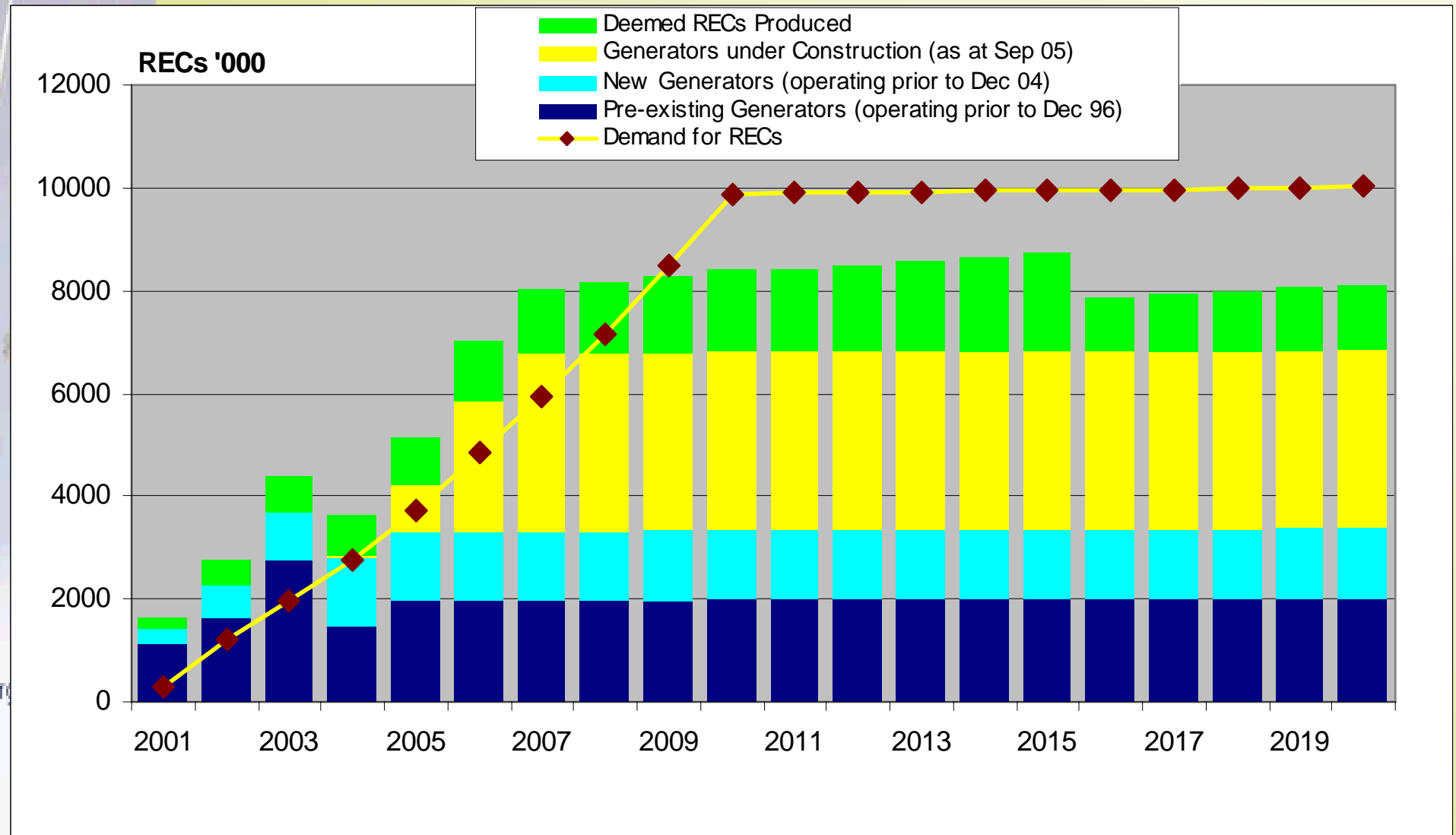
# Renewable power (2003/04)



# Renewables market share will fall (below 1997 levels)



# Committed RECs under MRET

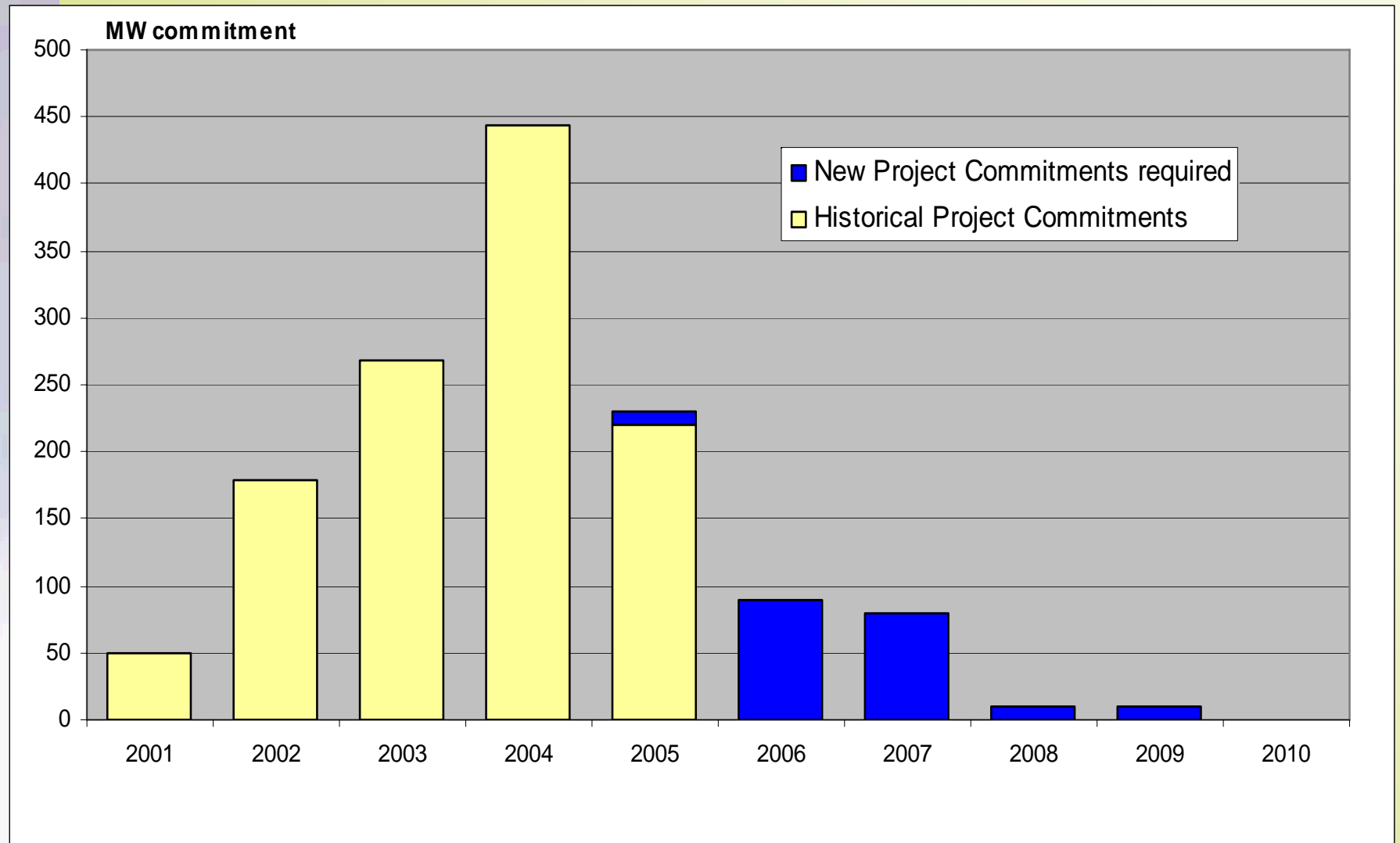


# What capacity remains for new projects?

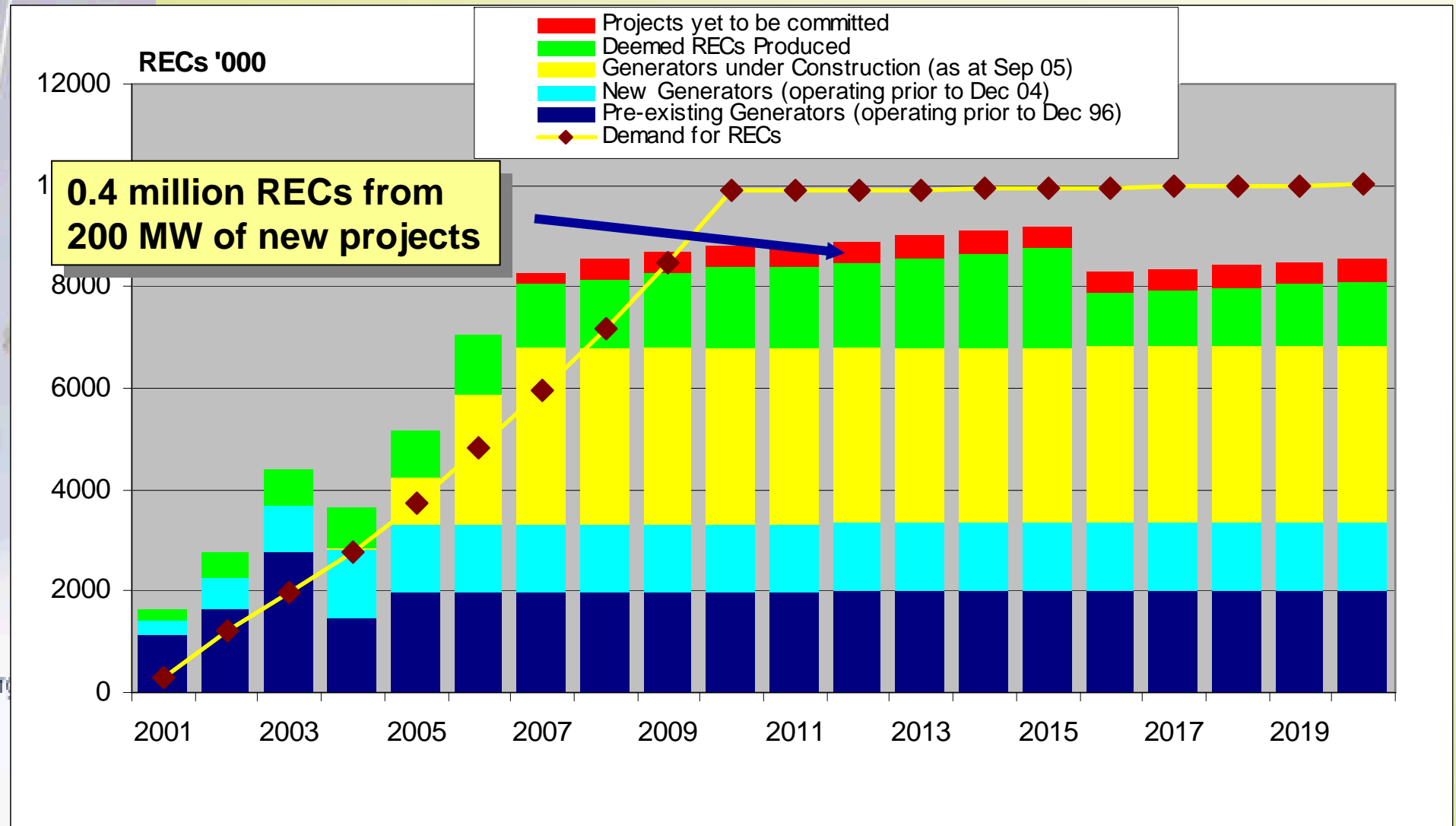


- RRPGP has around \$200m still available – will support 50 MW
- Provides up to 50% of capital cost for remote renewable power generation
  - ❖ Mawson wind project – 4,077 RECs in 2004
  - ❖ Huxley Hill – 1,403 RECs in 2004
- Leaves 150 MW of grid connected projects to meet expected demand

# Project commitments to meet demand

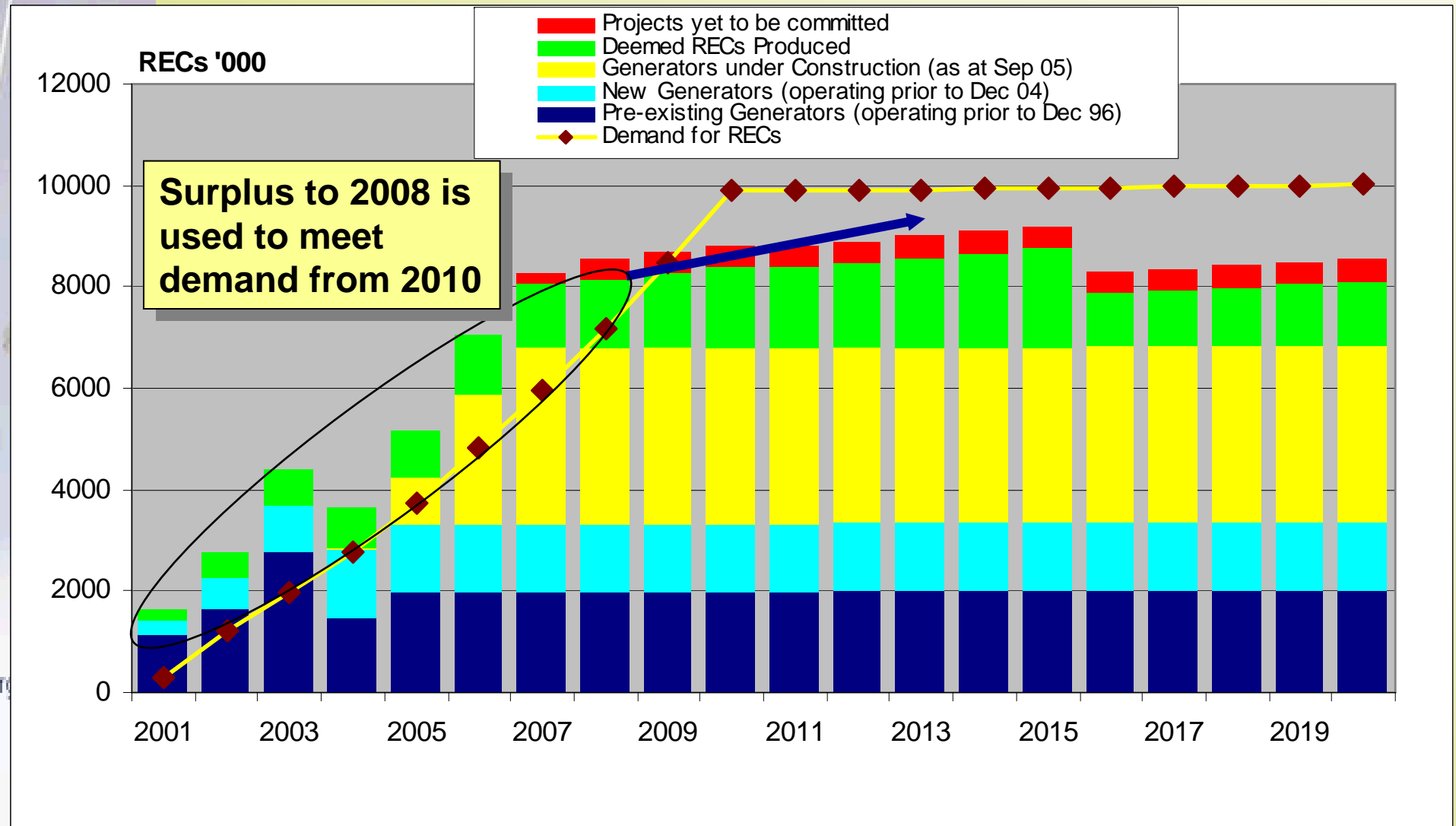


# Including new project commitments

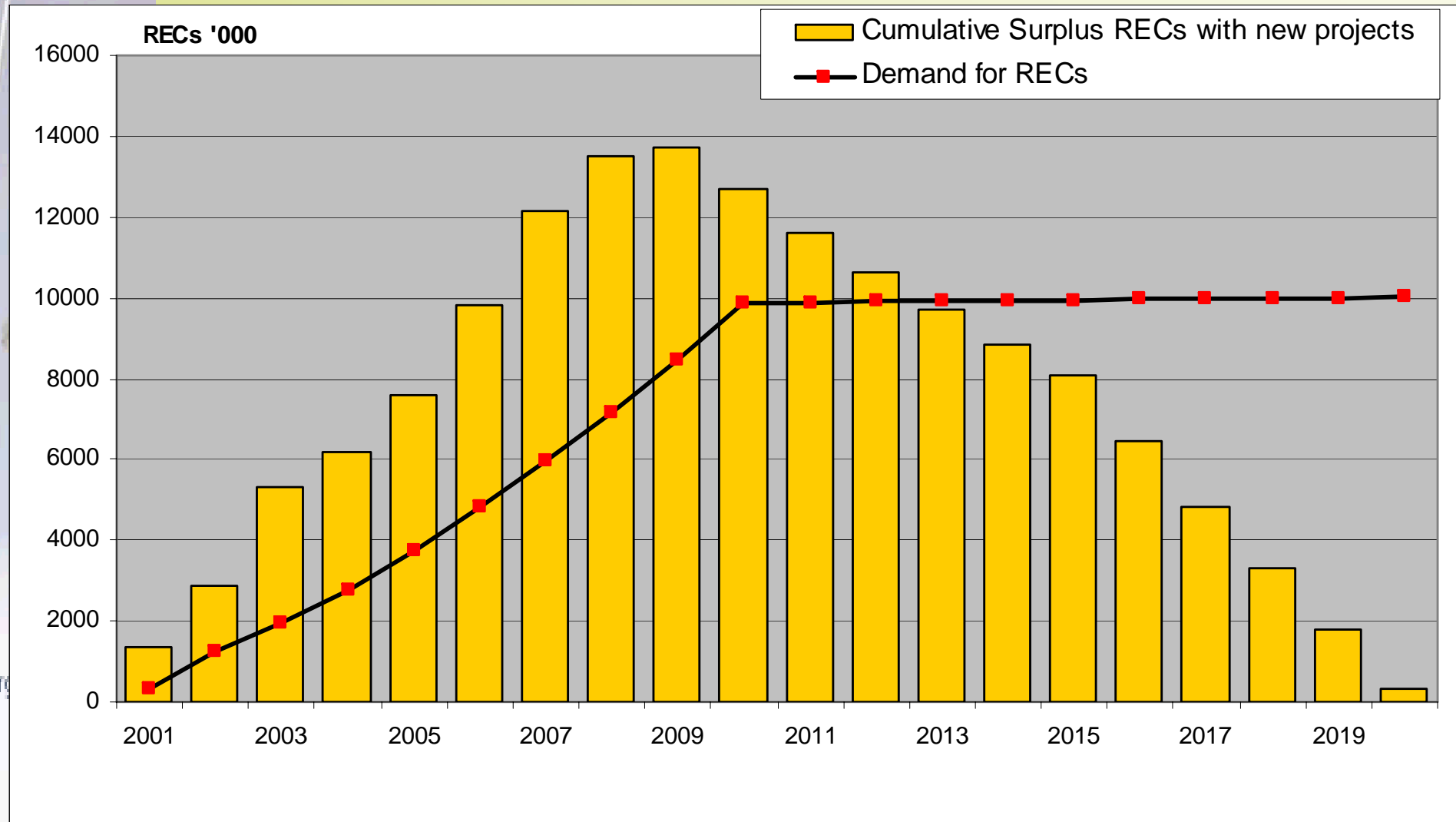




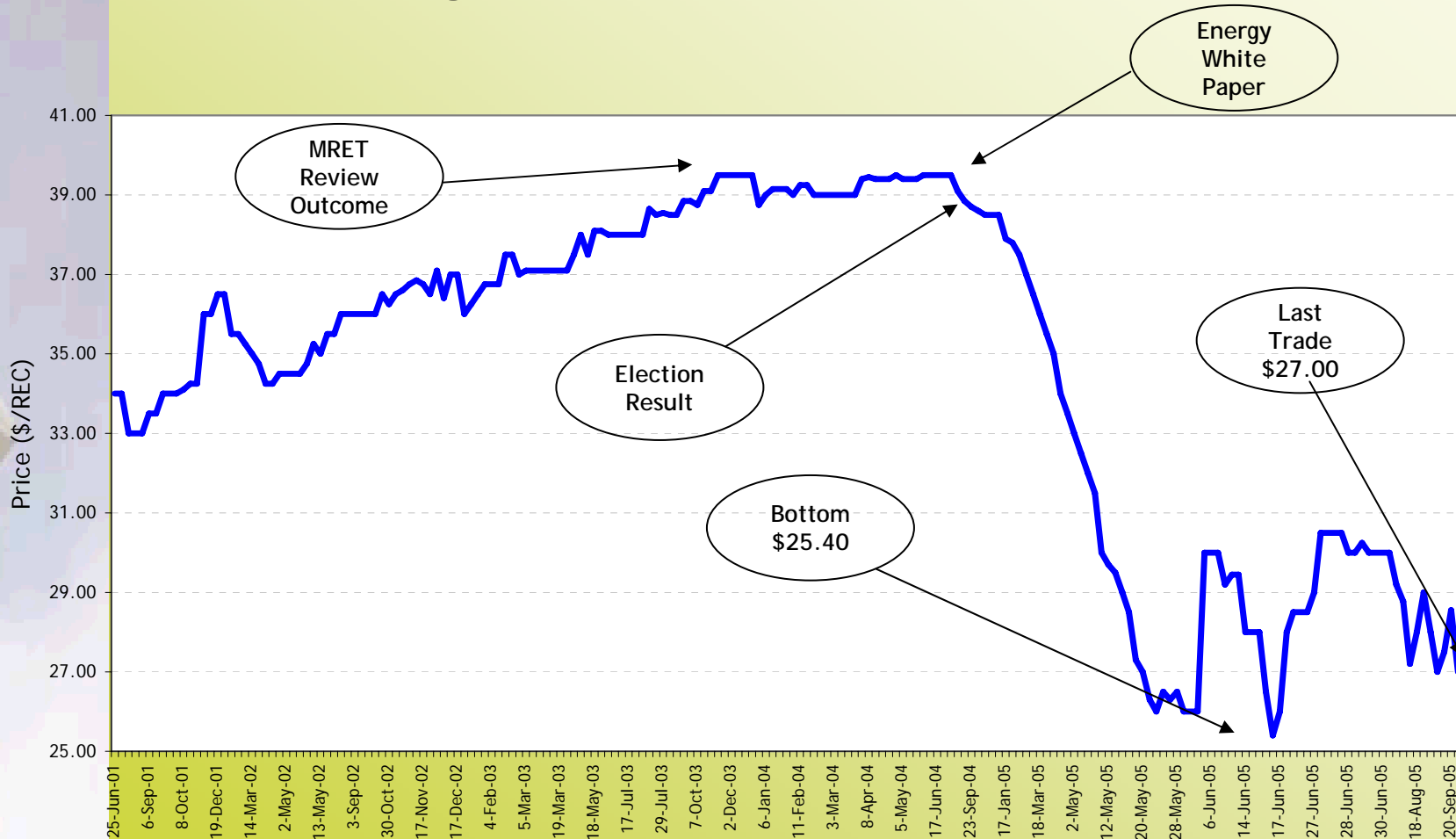
# Including new project commitments



# Level of banking (surplus) Including new projects



**The REC Spot market fell in 2005 due to retailers taking an active position against the potential 2004 MRET increase which did not eventuate, large volumes from both SHW and hydro generators coming onto the market and unhedged SHW suppliers becoming distressed and pushing down the market.**



Courtesy – Origin Energy

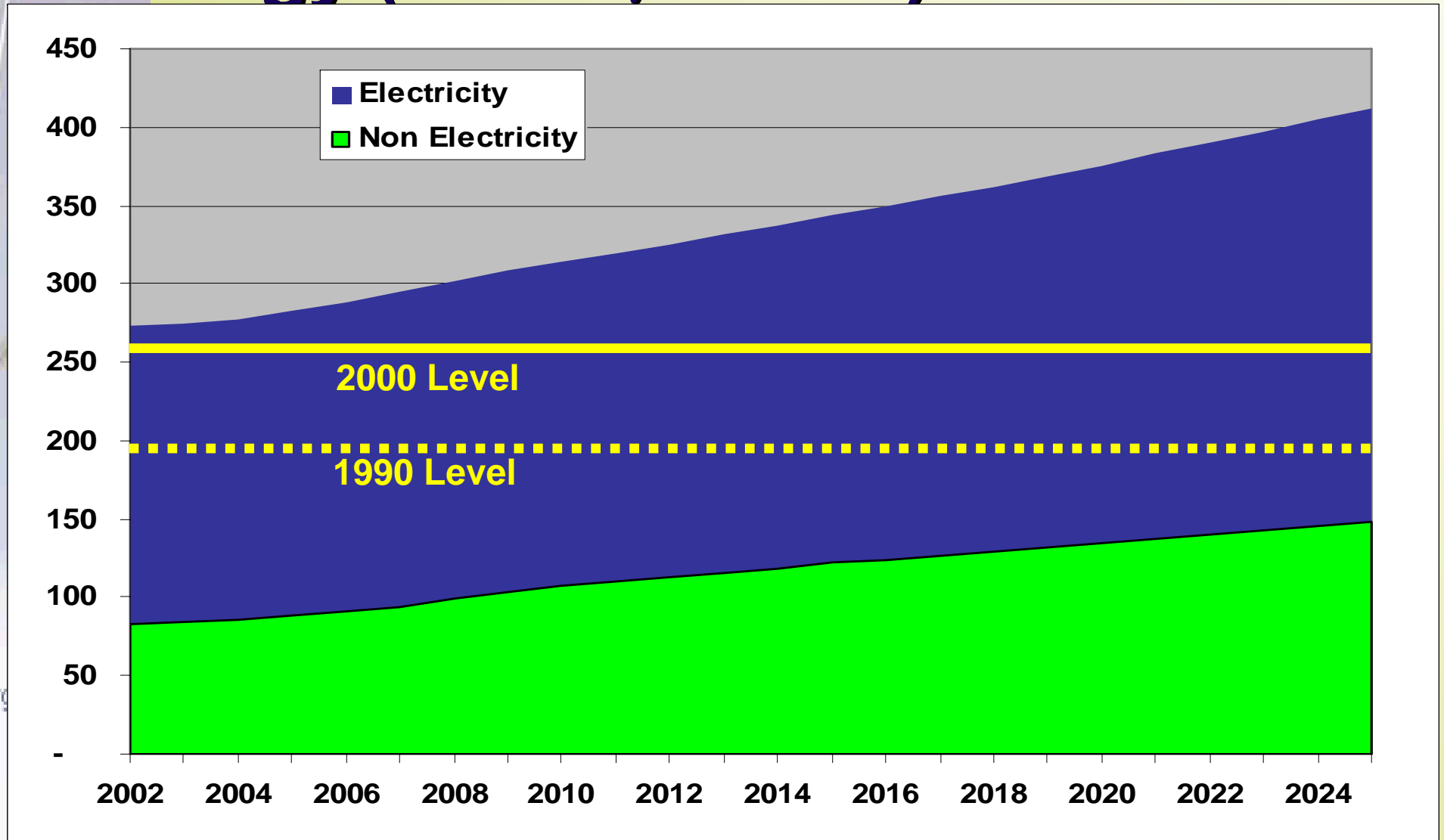
# Value in Environmental Markets



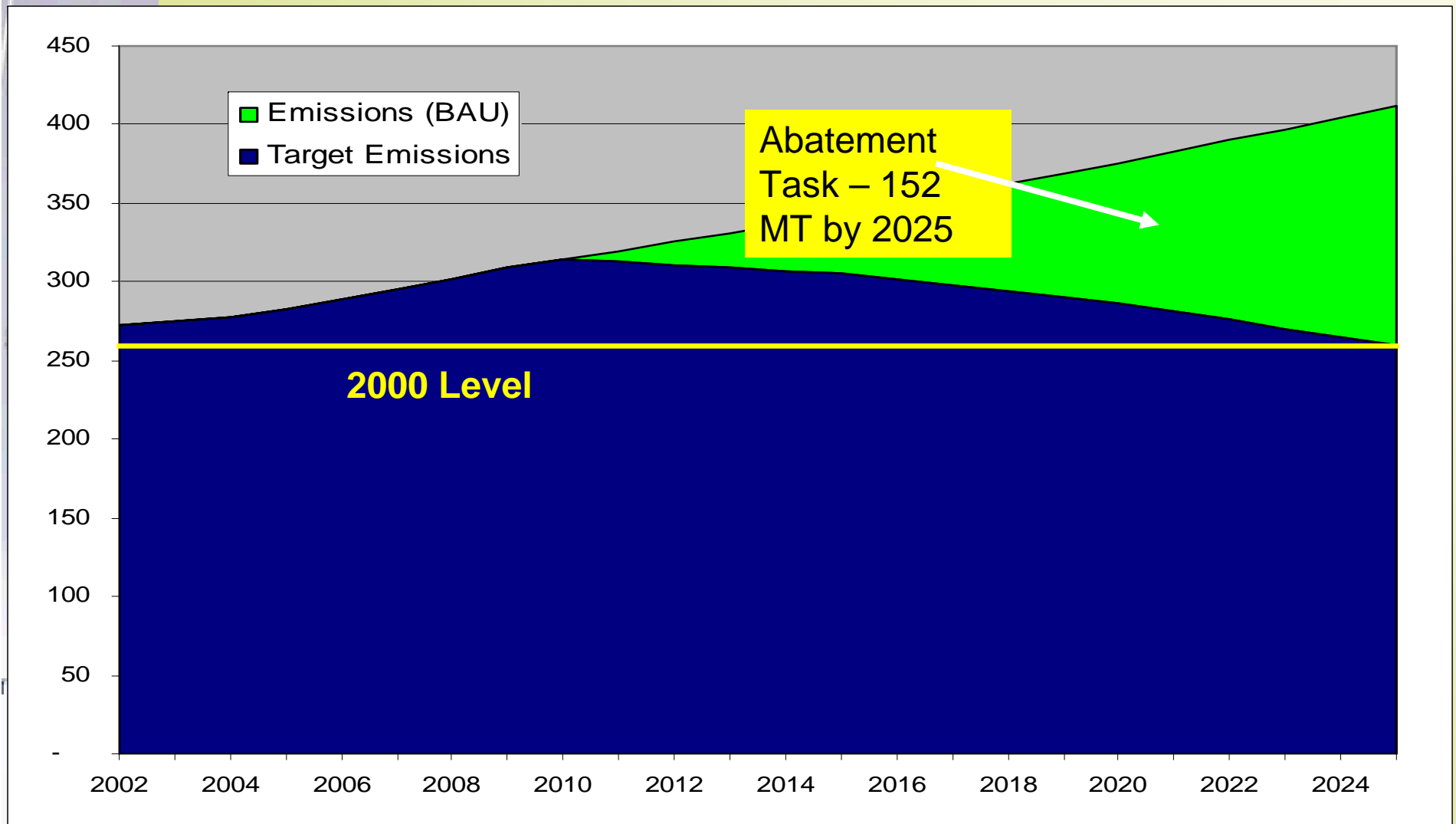
## Spot prices (BCSE – SEU, July 05)

- RECs (MRET) - \$28.90/MWh
- NGACs (NSW) - \$11.70/tonne CO<sub>2</sub>
- GECs (Qld) - \$15.50/MWh
- Emission prices (EU) - \$30/tonne CO<sub>2</sub> (19 euro)

# Emissions from stationary energy (ABARE, MT CO2)

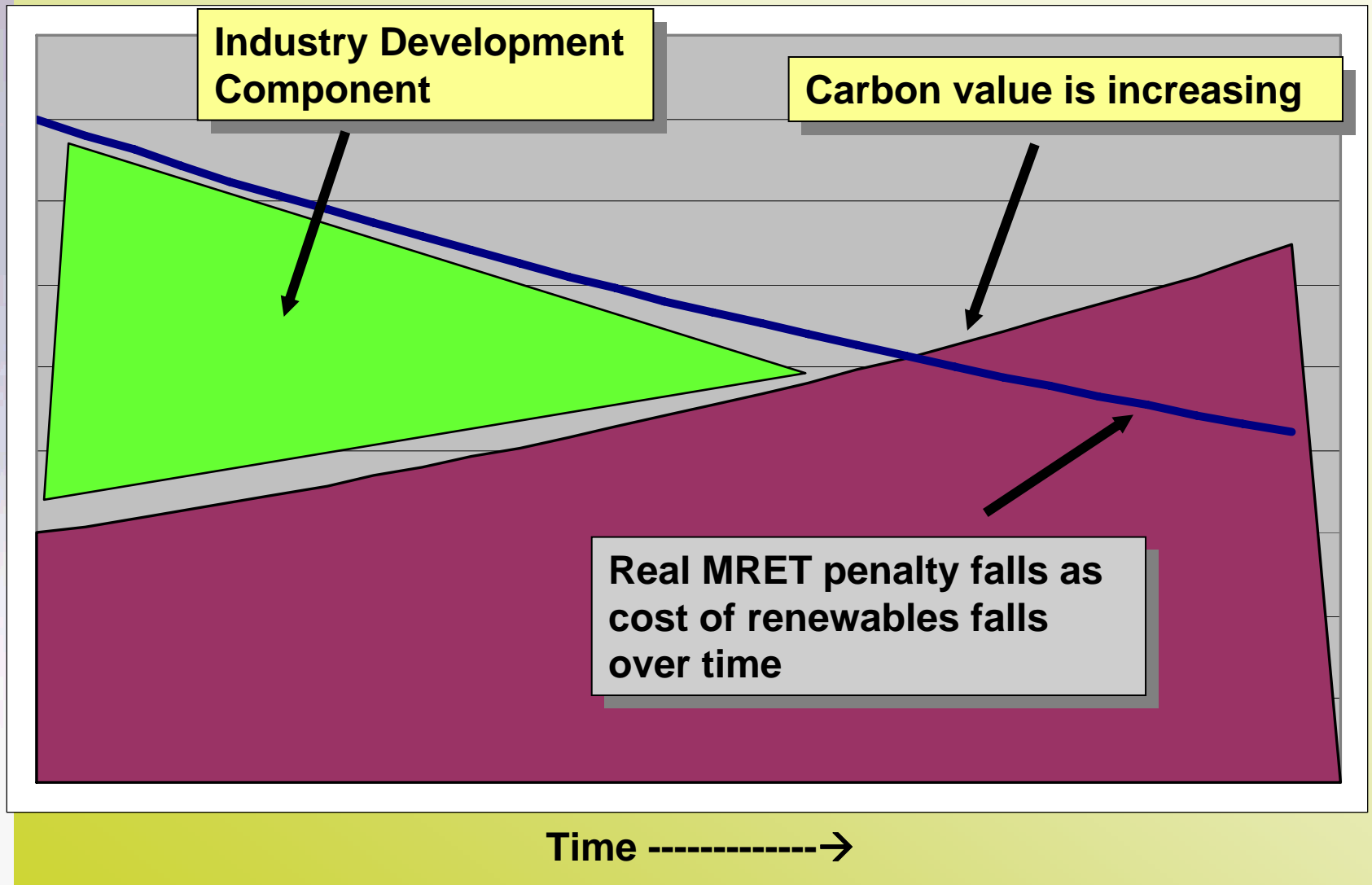


# Emissions from stationary energy (ABARE, MT CO2)



# Industry development component of MRET

\$/MWh/Tonne CO<sub>2</sub>



# Prospects of renewables target increasing



- Labour opposition has policy to increase MRET to real 5% by 2010
- State government's support an increase in MRET target – Tambling recommendation as minimum
- State policy commitments
  - ❖ Vic – increase renewables market share from 4% to 10%.
  - ❖ WA – increase from 1% to 6% by 2010
  - ❖ SA – increase to 15% by 2014



# Some observations



- Renewables is not a homogeneous industry
- There are important differences in applications, deployment, stage of development and cost drivers (bulk power generation cf: SWH and PV)
- Not argue about the virtues of one technology versus another

# Other policy options

## ■ Fiscal support mechanisms

- ❖ Tax relief (accelerated depreciation)
- ❖ Production tax credits
- ❖ Rebates and capital subsidies
- ❖ Tax deductibility for Green Power, SWH, PV

## ■ Retailer/Distributor licensing requirements

- ❖ Feed in tariff
- ❖ Renewable Portfolio Standard

## ■ Regulatory requirements

- ❖ Building codes

## ■ Voluntary schemes

- ❖ Green Power

**May need a mix  
of approaches**

# Principles



- Support new renewables projects
- Need to be in form that provides financiers with enough confidence to support new projects/investment
- Should be of long enough duration to support new investment in manufacturing (need ongoing supply of projects)
- Projects should not be able to claim RECs

# Accelerated Depreciation



## ■ Immediate tax deduction for investment in greenhouse abatement project

- ❖ Current depreciation over life of asset (20 years)
- ❖ Amount of acceleration could be dependent on greenhouse abatement
- ❖ Renewable project – 100% immediate write-off
- ❖ Geosequestration project – perhaps 80%

## ■ Operates for other activities

- ❖ Film industry
- ❖ Plantations (blue gums), Olives
- ❖ Oil and gas exploration

# Accelerated Depreciation



## ■ Issues for project proponents

- ❖ Value to project may be reduced as it will be many years before some businesses/projects pay tax
- ❖ Deductions could be transferable (secondary market)
- ❖ Provides reasonable investment certainty

## ■ Issues for Government

- ❖ Goes against objective to simplify tax system
- ❖ Is potentially “open ended” – cannot cap

# Capital grants for deployment



## ■ Renewable deployment fund

- ❖ Minimum 5 year period
- ❖ Needs to be substantial to support industry development
- ❖ Ability to leverage off other schemes? (eg NGAS)

## ■ Experience to date and examples

- ❖ GGAP - \$400 m (“additionality” debacle)
- ❖ PVRP – currently \$6m pa to 2007
- ❖ RRP GP - \$200m + (NT and WA)
- ❖ NSW Energy savings fund - \$40m pa for 5 years

# Capital Grants



## ■ Issues for project proponents

- ❖ Bidding and selection process can be uncertain
- ❖ Can get political
- ❖ Needs to be for a number of years to underpin investment in manufacturing (eg blades)
- ❖ Subject to annual budget cycle

## ■ Issues for Government

- ❖ Need to find the money in the budget (current strong GDP and revenue growth)
- ❖ Technology neutrality – picking winners
- ❖ Can control exposure

# Tax deductibility for Green Power (SWH & PV)



- **Tax deduction for abatement activities in the hands of consumers**
  - ❖ Could be a rebate (Medicare Rebate)
  - ❖ Empowers customers – sends them an important signal
  - ❖ Builds a long term market for Green Power – however may take time for Retailers to grow the market
  
- **Issues**
  - ❖ High transactions and admin costs
  - ❖ Politically attractive as it involves and engages voters



# Voluntary schemes



## Green Power

- 252,000 RECs surrendered to 31 December 2003
- 171,145 RECs surrendered in 2004
- With proposed changes to surrender rules forecast 330,000 RECs to be set-aside in 2006
- Expect that this will increase by 3% pa





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