



DO SOMETHING!



Dear Member

Saving at least \$455M from the Solar Bonus Scheme - without retrospective cuts

As you are aware, NSW's solar industry and the general public are deeply concerned about the Government's recent decision to retrospectively slash payments to homeowners who have already installed solar panels as part of the 'Solar Bonus Scheme'.

This letter outlines a solution to the current impasse. It delivers the savings sought by the O'Farrell Government but it also honours the existing contracts with 120,000 NSW households.

In writing this letter, we are setting out a mutually beneficial 'win-win' solution that works for the Government, the solar industry and the NSW households that have installed solar panels.

1) We have a positive solution that works for all parties

Together with the advocacy organisation Do Something, the solar industry believes we have a workable alternative that delivers cost savings and a more sustainable NSW solar industry. This approach was presented to the Minister for Resources and Energy, Chris Hartcher, on 20 May 2010, and has also been presented to the Australian Labor Party and cross-bench parties.

The Smart Solar Strategy:

- Meets the original commitments of the Solar Bonus Scheme;
- Achieves savings by using in-field solar data and adopts recommendations from the Independent Pricing and Regulatory Tribunal (IPART);
- Eliminates the sovereign risk and immorality of retrospective action;
- Delivers a fair price for solar into the future; and
- Applies lessons learnt from other States and Territories to deliver a model which could be the starting point for a national solar feed-in tariff (thereby giving NSW a leadership role)

Before we outline our solutions, we would like to outline the background to the current key issues.

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2) Background to the current problem

The previous NSW Labor Government rolled out a 'Solar Bonus Scheme' to increase the household generation of solar power. Customers who signed up to this Solar Bonus Scheme were guaranteed 60 cents for every kilowatt hour of electricity that was generated by the solar panels on their rooftops.

That income was Government-guaranteed until the end of 2016. The duration and size of the incentive meant that scheme participants would definitely recoup the cost of installation.

As a result, 120,000 NSW households installed rooftop solar panels, delivering the equivalent of a new 300 megawatt power station. This investment represents the biggest investment in energy generation in NSW in more than a decade. The support was statewide - 60% of the households who installed solar panels were based outside of NSW metro cities.

These households wanted to 'future-proof' themselves against rising electricity prices. For many, their decision to proceed was based on the fact that the scheme had bipartisan support. Indeed, the Liberal-National Coalition stated unequivocally that while they thought the scheme was overly generous, they would honour the agreements that underpinned the Solar Bonus Scheme.

On 27 October 2010 in the NSW Legislative Assembly, Pru Goward, then Shadow Minister for Community Services, [said](#):

"It is a shocking mismanagement, but we all accept and understand that the 60¢ seeding tariff must be halted for new applicants. We also understand that all existing participants must have their existing agreements honoured. This side of politics particularly understands the importance of retrospectivity. I want to be very clear on this point: A future O'Farrell-Stoner Government, a Liberal-Nationals Government, will also honour those agreements."

To back away from such commitments would be a major breach of trust. According to our data, each average household with a 1.5 kW system stands to lose up to \$2,000. If the O'Farrell-Stoner Government proceeds with this retrospective legislation, these 120,000 NSW households will lose hundreds of millions of dollars in previously guaranteed income.

Families, retirees, pensioners and farmers have funded the upfront development of this 'People Power' station. They cannot afford to carry such a big financial loss.

We believe that these same families, pensioners and farmers deserve a fair go from the O'Farrell-Stoner Government. We believe that the NSW Government has no right to walk away from contracts that so many people have entered into in good faith.

3) The problem with retrospective laws

The solar industry and the general public are firmly opposed to retrospective changes to legislation. As the former Victorian Premier, Jeff Kennett, has stated:

"The concept of retrospective legislation [is] totally unacceptable. I can think of no example when and where retrospective legislation can be justified."

On 27 May 2008, Australia's leading professional tax body – the Tax Institute – also said the following about retrospective laws:

"We believe that any attempt to reverse a law of the parliament retrospectively should only be taken in extreme circumstances and we cannot accept that a minor revenue gain, if there is any, is extreme enough to justify such a fundamental breach of the rule of law."

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To go ahead and retrospectively change the tariff would destroy trust and undermine people's faith in democracy and the word of law. Our position is that legislation that tears up agreements with no notice and no consultation is unjust and unfair. The solar industry and Do Something will not support any retrospective changes to contracts.

To that end, we have come up with the following solutions to find a mutually beneficial outcome.

4) Identified potential savings

a) Solar Yield Analysis

Following detailed analysis of the solar market and in-field solar data, the industry believes the NSW Government has overestimated the cost of the Solar Bonus Scheme by at least \$232 million.

The NSW Government, including the previous administration, has done this by substantially overstating NSW's solar yield, using solar yields akin to that achieved in the Northern Territory. In-field solar production monitors confirm that the average NSW performance is actually 1450 kWh/kWp/year. This is lower than the data currently being used by the NSW Government.

This figure means that the annual cost of 300 megawatts (MW) of generation at 60c/kWh would be \$261m, versus the \$302m quoted by the NSW Office of Resources and Energy (ORE).

As this is 14% less than government guesstimates, this represents a saving over the life of the scheme of \$232 million.

b) Further cost reductions in the scheme

It is estimated that only 240MW of connections are at the premium rate of 60c/kWh, with many of the remainder that applied after 27th October 2010 earning only 20c/kWh. This further reduces the scheme costs (as will many of those that have connected in a net metering configuration).

Hundreds of millions of dollars of savings may be demonstrable once the Government provides transparent figures on the number of connections of each type.

Supplementary information about the above is available upon request.

c) Capping the Solar Bonus Scheme to 300 MW

A third level of savings can be achieved by maintaining the original commitment to cap the Solar Bonus Scheme at 300 megawatts, and providing a fair price for solar into the future.

Instead of only offering new customers 20c per kilowatt hour (20c/kWh), as the Government has proposed, the Smart Solar Strategy proposes that new solar customers should be given the option of choosing a 1 for 1 feed-in tariff.

With a 1 for 1 feed-in tariff, households with new solar panels would receive an income for their solar energy that matches the cost they would otherwise pay for electricity from coal-fired power stations.

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In most cases, householders would be better off adopting a 1 for 1 tariff as their solar payments would grow in line with rising electricity prices.

This could achieve a saving of \$104 million.

d) Eliminating windfall profits for electricity retailers

A fourth level of savings can be achieved by eliminating future windfall profits for electricity retailers. Many people are unaware that electricity retailers are currently re-selling 100% taxpayer-funded electricity (created by household solar power systems) for prices up to 40c/kWh.

The Independent Pricing and Regulatory Tribunal (IPART) has stated the Government could:

“require retailers to transfer some of the financial benefit they receive under the scheme to distributors. This would reduce the amount of funds required to be ... foregone by taxpayers to pay for the scheme.”

This could deliver a saving of at least \$119 million, and potentially up to \$416 million.

Conclusion - the potential to deliver a \$455 million plus saving

The Smart Solar Strategy delivers savings of at least \$455 million and would implement a new strategy which ensures that householders will get paid the same for the clean energy they produce from the sun as they would pay for dirty power from coal-fired power stations - a fair price for rooftop solar systems.

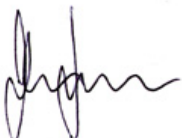
The figures that we have given you are based on the best publicly available data. If the NSW Government publicly releases its solar data for further analysis, we could use that data to give you final definitive financial figures from the solar industry. We also believe that additional savings could be identified if the NSW Government publicly releases this data.

In closing, we are keen to work with the Government and Treasury to resolve this issue, to identify further savings and to test the robustness of our figures.

We urge the NSW Government to restore some certainty for the 120,000 affected households and the solar industry by immediately announcing that it will not retrospectively cut payments to householders who have already installed solar panels under the Solar Bonus Scheme.

Should you wish to discuss this material further, or if you require more detailed information, please contact the undersigned. We would be happy to answer any questions that you have.

Yours sincerely,



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