

Small-scale Renewable Energy Scheme (SRES) in 2011

All Solar Water Heater, PV, small wind and hydro systems installed on or after 1 January 2011 will create Small-scale Technology Certificates (STCs) rather than RECs. Despite the new name, the SRES scheme will be very similar to the current RET for Green Energy Trading clients.

- A target for 2011 has been set (28 million)
- The STC price will still fluctuate depending on the certificate supply and demand
- We will still seek the best prices for our clients, and advertise our current price via email, SMS and on our website
- Current payment turn-around times will continue into the new scheme

How the market works for Small-scale Renewable Energy Scheme (SRES)

The wholesale market will continue to work in a similar way as it does at the moment. Liable parties (the electricity retailers) will need to purchase and surrender STCs, however, this will now need to be done each quarter, rather than annually. They will also have an option to either acquire certificates in the wholesale market, or choose to settle their liability through the clearing house. The clearing house is optional and need not be used – there is no requirement for Liable Parties to use the clearing house if they can source certificates elsewhere.

The Clearing House

The clearing house is a queuing system. STCs may be lodged in the clearing house, and liable parties may choose to purchase STCs from the top of the queue at a fixed price of \$40 per STC. If they use the clearing house it is likely that they will wait until the end of the quarter to do this, to avoid carrying capital.

As this will be the most expensive way to purchase STCs, it is likely that liable parties will only purchase from the clearing house as a last resort – that is, if there are not enough STCs offered for sale in the wholesale market to meet their liability.

The Wholesale Market

Those selling STCs may not be able to wait until their STCs reach the top of the queue in the clearing house before being paid for their STCs, and will be happy to receive less than \$40 per STC by selling them in the wholesale market. STCs may be removed from the clearing house queue to be sold in the wholesale market at any time.

We anticipate that liable parties will aim to purchase STCs progressively through the quarter in the wholesale market because the price in the wholesale market will always be lower than the \$40 available through the clearing house. The wholesale market price will fluctuate based on supply and demand, and the likelihood of STCs being purchased through the clearing house.

The early reduction of the REC multiplier and the deferral of system installations to 2011 will mean that there will likely be a surplus of certificates in the market in 2011 and therefore means that STC prices are likely to be considerably lower than the \$40 clearing house price.

The STC Target

The Office of the Renewable Energy Regulator (ORER) has recently released an STC Target of 28 million. This is the number of certificates that will need to be surrendered by electricity retailers and other liable parties for the 2011 year. The 28 million will be surrendered on a quarterly basis with 35% by 28 April, 25% by 28 July and 28 October and 15% by 15 February 2012. To the extent that more or less STCs are registered in any year compared to the STC Target then these will be added or subtracted from the following year's Target.

Three consultants (including our associate company Green Energy Markets) were engaged by ORER to develop projections for STCs and came up with a range between 27 and 30 million STCs to be settled in 2011. The solar credits multiplier reduction has also been brought forward one year which will result in PV system installations being brought forward into the first half of 2011. The fall in the REC price in November 2010 has also resulted in deferral of system installations to the new year so as to take advantage of the likely higher STC price. We believe that this will result in a greater level of STCs being created than the ORER's target of 28 million.

The degree to which the level of STC creation exceeds 28 million will have an adverse impact on the wholesale STC price. If there is a significant surplus of STCs the clearing house will not be used much and those that put STCs in the clearing house may well not get their certificates settled for some time.

In effect the SRES is not uncapped as the Government initially announced. The Regulator sets the Target for the year and we would then expect the price of STCs to fall to that level where the amount of systems sold is sufficient to meet the Target.

STC prices in 2011

The stated \$40 fixed price is somewhat misleading. The \$40 is the maximum price that Liable Parties will pay if they purchase certificates through the clearing house. System owners will only receive this price if they create their own STCs, pay the registration fees, lodge them into the clearing house and then wait for them to be purchased. However this could take 3 months, 6 months or even longer because the energy retailers will prefer to purchase their quota of STCs at the lower price offered by the wholesale market. If the liable parties have all the certificates they need, they will not need to purchase through the clearing house at all, meaning system owners could potentially be waiting a long time to receive their payment. Green Energy Trading will never earn \$40 per STC, given the costs associated with creating the certificates. \$40 is effectively a ceiling price - what we can offer our clients will always be lower than \$40 and will continue to fluctuate.

There have been a number of wholesale market STC transactions recently in volumes of 10,000 certificates or more that have traded at around \$36.50 per STC for settlement in February and March 2011. This is quite a bit lower than the \$40 maximum price from the clearing house and generally reflects the view that the 28 million Target for 2011 is too low and will easily be exceeded. If PV system installations increase dramatically in the first half of 2011 we can expect the STC price to fall further. On the other hand, if there are

modest levels of systems installed we would expect the wholesale market price to rise closer to the \$40 as the clearing house will get used considerably more.

It will take some time for the market to settle down and for participants to get a handle on the likely level of PV systems installed and creating STCs. We will be monitoring the market closely in the new year and will be reflecting any changes in the wholesale market price through our pricing. We will keep clients up to date as the market develops.

Customers and the \$40 price

The government's advice on this has led many people to believe that the \$40 is a fixed price. This is not the case, as there is a fixed target of 28 million for 2011 and the price will fall if more certificates than this are created.

We understand that some solar companies are simply valuing the point of sale discount they give to their customers at \$40 per STC to avoid confusion. It is the net cost to the customer that matters and the initial price of the system can be increased to reflect any discount to the \$40.

Working with Green Energy Trading in 2011

Green Energy Trading will manage the whole process from creating the STCs to trading them and will seek to provide the best possible prices for our clients. Our current payment turn-around times will continue into the new scheme; no waiting months for payment. There will be separate prices for STCs and RECs as these certificates operate under separate schemes and trade within separate markets. The scheme the system will create certificates into depends upon installation date; installation on or before 31 December 2010 = LRET (the continuation of RET), and installation on or after 1 January 2011 = SRES. Weekly prices for all certificate types will be published on our website - <http://www.greenenergytrading.com.au/rec-prices.html>

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Green Energy Trading

2 Domville Ave
Hawthorn Vic 3122
T 03 9805 0700
T 13 000 777 84
F 03 9815 1066

info@greenenergytrading.com.au

www.greenenergytrading.com.au

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