

Victorian Renewable Energy Auction Scheme

Summary report of stakeholder submissions

New Energy. New Jobs.

25% renewable energy by 2020.

40% renewable energy by 2025.

Up to 11,000 jobs in construction projects.

Department of Environment, Land, Water and Planning

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1. Context for this document

On 15 June 2016, the Victorian Government announced the establishment of ambitious renewable energy targets. These targets seek to ensure that 25 percent of the State's electricity generation comes from renewable sources by 2020, rising to 40 percent of generation by 2025 (as outlined in the consultation paper).

The Department of Environment Land, Water and Planning (the Department) obtained commercial and legal advice in order to develop a consultation paper which outlined some areas in which the Department had a preliminary position and other areas in which it was looking for stakeholder comment. This consultation paper was distributed to key stakeholders in early August 2016.

The process for consulting with relevant stakeholders involved:

1. Seeking written submissions – these submissions were to be in response to the consultation paper and to be submitted by 31 August 2016; and
2. Running consultation workshops – there were four workshops held with stakeholders on 23 and 24 August 2016 as follows:

Tuesday 23 August, 10am-12pm – Project Developers and Financiers

Tuesday 23 August, 2pm-4pm – Networks and Retailers

Wednesday 24 August, 10am-12pm – Industry Groups, Associations & Peak Bodies

Wednesday 24 August, 2pm-4pm - Interested Stakeholders and Members of the Public

During the industry consultation workshops on 23 and 24 August 2016, it was communicated to participants that a summary of the consultation workshop outcomes and stakeholder submissions would be compiled and shared publicly via the Department's website.

This document sets out a summary of the stakeholder submissions regarding the scheme design.

Disclaimer:

All views expressed in the submissions summarised in this document are those of the individual contributors. The State of Victoria and the Department of Environment Land, Water and Planning will not be liable for any errors or omissions in this information, or any losses, injuries, or damages arising from its display or use.

Please note that submissions that were made publicly available by the submitter will be available on the Department website.

2. Executive Summary

Consultation Process

There have been high levels of engagement in the consultation process on the Victorian Renewable Energy Auction Scheme (the scheme).

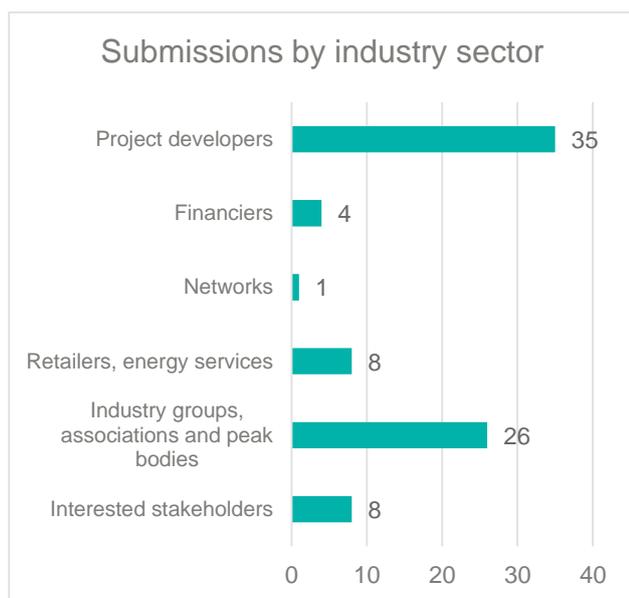
Over 200 stakeholders were in attendance across the four consultation workshops held on 23 and 24 August 2016 in Melbourne.

Subsequent to the consultation workshops, the Department received 81 written submissions, each of which provided feedback on key aspects of the scheme design.

Submissions received

The 81 written submissions were made by participants across the industry sectors set out in table 1 below.

Table 1: Stakeholder submissions by industry sector



In this report we have not provided a list of specific parties that lodged written submissions as 29 submitters requested that their submission be treated as confidential or partially confidential. The submissions that are not confidential will be published on the Department’s website.

Key findings

There were a large number of areas in which the Department had expressed a preliminary position in the consultation papers or workshops, which were supported by the stakeholder submissions.

Areas in which the Department expressed a preliminary position, which was not supported by some stakeholders were:

- Reference price – stakeholders felt that the half-hourly NEM price would be more appropriate than a monthly average (see [section 5.2](#) in this report);
- Scheme exemptions – it was expressed that it may not be possible for the networks (as cost recovery agents) to discriminate between classes of customers (see [section 7.3](#) in this report).

Areas in which the Department sought stakeholder input, where stakeholder views were in broad agreement were:

- Contract length – most stakeholders were of the view that a longer agreement (up to 20 years) will reduce overall scheme costs (see [section 6.5](#) in this report);
- Payment frequency – most stakeholders expressed that payments should be made monthly in arrears (see [section 6.7](#) in this report); and
- Expressions of interest – there was a preference for there to be strict project eligibility criteria that need to be addressed as opposed to an expression of interest stage (see [section 8.4](#) in this report).

Areas in which the Department sought stakeholder input, where stakeholder views were mixed were:

- Large-scale generation certificates (LGCs) treatment – whether pre-2020 they should remain with the project proponent or be part of this scheme (see [section 4.4](#) in this report);
- Cost recovery agent – whether this role should be undertaken by the distribution network operators or the State’s transmission network operator (see [section 7.2](#) in this report); and
- Minimum project size / project eligibility – there were a wide range of views on the minimum size of projects and types of projects (e.g. in front of the meter vs. behind the meter) that should be eligible to participate in this scheme (see [section 8.2](#) in this report).

“The Victorian Government is leading the charge, and has set very ambitious targets for investment in new renewable energy projects to 2025. While the Government’s ambitions are challenging, the targets can be achieved with the right policies in place.” – Servion Energy Solutions

3. Overview of this document

About the Victorian Renewable Energy Auction Scheme

To support the achievement of Victoria's renewable energy targets, the government has committed to implementing a renewable energy auction scheme aimed at incentivising significant new renewable energy investment in Victoria.

Investment in the Victorian renewable energy industry has been limited due to uncertainty in the Federal Renewable Energy Target (RET) and an inability to secure long-term future revenue to enable the attainment of project finance.

This scheme will assist industry to overcome these barriers by providing financial support to renewable energy projects on a cost-effective basis. In addition to this, the government also intends to use the scheme to drive industry development and job creation in Victoria.

Using the scheme, the government will hold a series of auctions which will call on industry to bring forward bids requesting support to build new renewable energy capacity in Victoria. Funding will be awarded via long-term contracts, between the scheme administrator and successful parties, for projects demonstrating the greatest value for money to the State.

It is expected that the government will continue to auction off capacity in this way over the life of the scheme in order to draw a level of investment that will result in the State meeting its renewable energy generation targets by 2020 and 2025.

The scheme is designed to:

- Deliver up to 1500 megawatt (MW) of new large-scale renewable energy capacity by 2020 and up to 5400MW by 2025;
- Support capital expenditure of around \$9 billion in renewable energy projects, which would result in about \$2.5 billion of direct economic activity in Victoria; and
- Create up to 11,000 two-year construction jobs over the life of the scheme, particularly in regional Victoria. In the peak year of project construction, the scheme is expected to deliver over 4,000 renewable energy jobs.

To ensure that the scheme meets its objectives it is important that it is appropriately designed to:

- Attract sufficient market interest to participate in the auctions and allow government to meet its targets;
- Minimise scheme costs;
- Drive industry development and jobs in the State; and
- Ensure ease of administration.

About the scheme design elements for consultation

The elements of the scheme that stakeholders were consulted upon are each set out as a separate section in this summary report. The topics and sections are as follows:

Section 4: Scheme structure

Section 5: Payment structure

Section 6: Contracting elements

Section 7: Scheme administration and cost recovery

Section 8: Auction evaluation principles

Methodology for this Summary Report

The Department received 81 written submissions from stakeholders interested in the development of this scheme. Of the 81 submissions, 29 of the submissions were classified as confidential or partly confidential. To consistently represent the summary views of all stakeholders we have de-identified individual participant responses but reflected the stakeholder group that the response came from.

This summary report also takes account of the Victorian Renewable Energy Auction Scheme Consultation Paper and the discussions in the Stakeholder Workshops on 23-24 August 2016.

Where the Department expressed a preliminary position on a scheme design area this report captures this position, whether the position arose from the Consultation Paper or Consultation Workshops and whether this position was supported by stakeholder written submissions.

"The CEC supports the development of the auction scheme as an important tool in creating jobs and investment, as well as driving change in the Victorian electricity sector. A well designed auction scheme will cement Victoria's leadership in the renewable energy industry as well as create clarity and certainty for investors." – Clean Energy Council

4. Stakeholder findings – scheme structure

How auction rounds will be designed and the scheme's interaction with other Federal policies

The scheme will involve a series of auction tranches for renewable energy capacity. Important considerations for these auction tranches will be how they are staged, what renewable energy technology will be auctioned and how auctioned capacity interacts with the Federal RET (Consultation Paper).

1. Auction staging

Department preliminary position

To achieve the Victorian Renewable Energy Target (VRET) of 25% by 2020, it is anticipated that up to 1500MW of new renewable energy capacity will need to be operational by the end of calendar 2020.

In the workshops it was discussed that a megawatt (MW) schedule of auctions could be published several years in advance to provide certainty to participants in the scheme. It was also noted that the first auction is likely to be held within six months of the scheme legislation being passed and that the auction(s) held in 2017 and 2018 may need to be large in size to enable projects to be built within time to achieve the 2020 target (Consultation Workshops).

Stakeholder response

Project developers requested that full details of each auction round be released at least six months in advance and that a schedule of auctions to 2020 (and always two years in advance) be communicated. Furthermore, it was suggested that auctions be held at least once annually to give industry certainty to invest in developing a pipeline of projects.

In relation to the 2020 and 2025 targets, several submissions noted that there would be greater certainty if the target were expressed in MW, or even more precisely, in megawatt hours (MWh) of energy.

2. Technology split

Department preliminary position

In the workshops it was expressed that based on current technology costs, wind would be the dominant technology under the scheme to 2020.

The government has announced its intention to have a 20% allocation of the renewable energy target for large-scale solar in order to build this industry in the State.

Stakeholder response

Written submissions, especially those from project developers, retailers and energy services companies were broadly supportive of a dedicated portion of auctions for large-scale solar. A financier expressed that this carve-out of auction capacity was necessary to develop large-scale solar capabilities and capacity in Victoria.

A number of project developers, retailers and financiers expressed that beyond 2020 separate auctions for solar may not be required as it is likely to become cost competitive with wind. It was also noted by an industry body that recent reports suggest that there is a sufficient pipeline of large-scale solar projects in Victoria to meet the 2020 target.

A number of project developers and industry groups communicated other areas that could be subject to an auction capacity split. Those areas nominated by more than one stakeholder included:

- Ancillary services such as energy storage and demand management;
- Less intermittent generation with a higher capacity factor such as energy-from-waste and biomass;
- Community ownership auction tranches; and
- Geographically focused auctions to target areas where network capacity is available.

3. Interaction with Federal Policies

Department preliminary position

The Department's intention is for projects under the scheme to be 'complementary' to the Federal RET until 2020. This means that projects will be eligible to create Federal large-scale generation certificates (LGCs) to acquit Federal RET obligations (Consultation Paper).

Projects commissioned after 2020 will be 'additional' to the Federal RET and will have to surrender any

"The Victorian Renewable Energy Target will reshape the energy system and inject renewed confidence into the renewable energy sector. The initiative presents an opportunity to make Victoria a renewable energy hub following a period of considerable uncertainty; maximise local benefits in terms of job creation, industry development and transition in the Latrobe Valley; and enable greater community involvement in the energy system." – Friends of the Earth

LGCs created to the Victorian Government (Consultation Paper)

In the workshops participants queried whether the 'additional' projects after 2020 could become 'complementary' in the event that the RET is expanded or a new Federal renewable energy or emissions reduction policy comes into effect. This was not ruled out (Consultation Workshops).

Stakeholder response

In terms of interactions with Federal policies, an energy industry association suggested that this scheme may wish to retain flexibility to be complementary to the Federal RET until the RET is satisfied. This submission went on to express that should the government wish to not depress LGC prices for projects commissioned pre-2020, it could gradually release LGCs into the market at the penalty price.

Conversely, retailers and industry associations communicated the need for certainty regarding the Victorian Government's role in the LGC market. The reason being that should the Victorian Government participate in the LGC market it will become a major participant and the precise nature of its involvement in the market needs to be understood so that it can be reflected in market trading.

4. LGC treatment with auctions pre-2020

The options for the treatment of LGCs for projects that are 'complementary' to the Federal RET (to 2020) are that they could be:

1. Traded by successful project proponents; or
2. Included within the auction process to be resold by government.

Considerations in relation to the treatment of LGCs under the scheme are:

- That it needs to enable successful proponents to secure project finance;
- Ensure scheme costs are minimised; and
- Ensure adequate market interest from industry to participate in the auctions (Consultation Paper).

Stakeholder submissions

The views of stakeholders on the way to treat LGCs were relatively divided, with project developers having a preference for government ownership and retailers having a preference for LGCs to be retained by the project proponents.

Project developers expressed that the inclusion of LGCs in the scheme would reduce the overall costs of projects. This is because project developers are unable to obtain long term off-take agreements for LGCs, which pushes up the cost of financing. By including LGCs in the scheme there would be certainty over the handling of these certificates to 2030, which would enable lower strike prices for projects bid into the scheme.

Retailers and energy services stakeholders were generally of the view that government should remove itself from involvement in the LGC market. These submissions noted that government should avoid any actual or perceived influence regarding the dynamics of these markets. Furthermore, it was expressed that the cost of guaranteeing LGCs should not be borne by the scheme administrator as this would increase scheme costs.

It is noted that stakeholders expressed a range of suggestions for government should it choose to include LGCs in the scheme. These suggestions were:

- Pay for the LGCs quarterly in arrears based on an average monthly price;
- Pre-2020, outsource LGC sales to a third party (e.g. a broker);
- Recover the cost of administering the LGCs by charging successful projects a levy per certificate.

Furthermore, financiers expressed that they will require certainty that a bundled contract of electricity and LGCs will remain in place in the event of a RET repeal.

5. Meeting the 2020 and 2025 targets

The Department asked stakeholders how it can ensure that a pipeline of projects will be ready to meet the government's targets for 2020 and 2025 while maintaining appropriate flexibility for government to adjust the scheme where required.

Stakeholder submissions

Stakeholder contributions on this topic were:

- Wind projects aimed at meeting the 2020 target will need to be awarded by the end of quarter 1, 2018;
- Solar projects intended to meet the 2020 target will need to be awarded by the end of quarter 4, 2018.

"NAB believes that a well-designed auction scheme will assist the Victorian Government to achieve its targets whilst creating jobs and attracting investment to the State." – NAB

The inference from these submissions is that up to 1200MW of wind would need to be auctioned by Q1 2018 and up to 300MW of solar by Q4 2018 (assuming the 25% target in 2020 equates to 1500MW and that there is a 20% solar split).

Beyond these near term requirements, stakeholders recommended that a minimum of 200MW be auctioned in each tranche to ensure competitive tension.

Other key considerations for ensuring a pipeline of projects will be ready to meet the 2020 target were:

- projects should not be required to obtain a separate PPA;
- permit ready, but not yet constructed projects, should be allowed to participate;
- planning approvals should be streamlined and this function must be appropriately resourced to expediently process applications;
- a process should be developed to amend current planning approvals (e.g. to reflect the latest technology); and
- a government team should be established that assists with project facilitation by: collaborating with Regional Development Victoria; coordinating approvals across government departments; and communicating where other funding/ assistance may be available.

In relation to meeting the 2025 target, retailers expressed that transmission congestion will limit the volume of projects that can be economically built. A project developer suggested that a low cost pathway to 40% renewable energy needs to carefully consider north west Victoria constraints, costs for augmentation and further consultation and planning be undertaken with Australian Energy Market Operator (AEMO). Finally, an incumbent generator suggested that the scheme recognise the benefits of increased interconnection with other States and pursue long-lead time infrastructure projects.

5. Stakeholder findings – payment structure

How funding will be awarded under the scheme

Funding under the scheme will be awarded via long-term contracts between the scheme administrator and successful project proponents. There are a number of ways that funding payments can be made under the scheme to successful generators.

1. Payment mechanism

Department preliminary position

In the Consultation Paper, the Department proposed to award funding under the scheme using a contract for difference (CfD) payment structure (Consultation Paper).

Under this payment structure, project proponents would be asked to put forward auction bids for funding based on a 'strike' price per MWh of generation. This strike price would reflect the cost of investing in a particular renewable energy technology. Projects offering the lowest strike price (as well as meeting other criteria) would be awarded funding under the scheme in the form of a feed-in-tariff for the difference between the strike price and the reference price for electricity sold in the wholesale National Electricity Market (NEM), as well as potentially the sale of LGCs (Consultation Paper).

An alternative payment mechanism identified in the consultation paper was a fixed payment contract. Under this option, successful proponents would receive funding based on completing construction of new renewable capacity, irrespective of the level of generation dispatched by the generator thereafter (Consultation Paper).

Stakeholder response

Based on the submissions received, the majority of project developers, financiers and retailers supported this approach. The majority of stakeholder responses expressed that a CfD will enable access to low cost, long-term funding and will lead to the pipeline of projects required by the scheme and lower scheme costs by enabling projects to achieve a lower costs of capital.

"Victorian Trades Hall Council welcomes the Andrews Government's commitment to renewable energy and setting achievable renewable energy targets to drive investment in the sector. VTHC commends the Victorian Government for their forward thinking here and thank Minister D'Ambrosio and her department for their consultation with VTHC." - Victorian Trades Hall Council.

Five stakeholders preferred the fixed payment contract mechanism. The justification was that it reduces administrative costs, risks and volatility for end consumers. A retailer submission suggested that a 2 to 3-year fixed payment would enable the required projects to be built.

2. Reference price

For the purposes of calculating the payment made to generators, a NEM reference price will need to be determined.

Department preliminary position

The consultation paper proposed basing the reference price on a monthly average NEM price as opposed to the half hourly NEM price used in the ACT scheme. It is expected that basing the reference price on a monthly average will ensure projects continue to receive price signals from the NEM, improving the correlation between generation under the scheme and market demand (Consultation Paper).

It is proposed that scheme revenue under this payment structure would be paid to the generator each month or quarter in arrears in one lump sum based on generation over the previous period (Consultation Paper).

Stakeholder response

The majority of stakeholders suggested that half-hourly pricing be used because it aligns the reference price with generation, not a time-weighted price, to increase revenue certainty.

Two financiers expressed that the NEM reference price should be based on half-hourly data. They communicated that a monthly average price will lead to higher project strike prices because it increases basis risk (the difference between the NEM reference price used in the CfD and the actual price received by projects) and will therefore lead to more expensive project financing.

A peak body and an industry association recommended the use of monthly price averages to create incentives for project operators to locate and manage their projects to maximise half hourly revenue, and so follow energy market needs.

3. NEM floor price

Department preliminary position

Where a half hourly reference price is used, a NEM floor price may be employed for the purposes of calculating scheme payments. This may be set at a value equal to zero to effectively cap scheme costs and ensure the scheme does not distort the NEM significantly by incentivising generators to dispatch electricity even where NEM prices are negative in a given time period (this is particularly applicable where payments are made on the basis of a half-hourly NEM price period) (Consultation Paper).

Stakeholder response

In the written submissions, the floor price was supported by stakeholders as it will maintain market stability and contain costs.

Three project developers suggested that the floor price could be set at below zero to allow for the value of LGCs which will be realised by the proponents even where market prices are negative.

4. Payment amount

Department preliminary position

The consultation paper expresses that generators will earn the strike price (less the reference price) and applicable LGC revenue per MWh for the energy delivered from their generators (Consultation Paper).

Energy delivered will be defined, for the purposes of paying generators, as the MWh of electricity dispatched from a generator's site multiplied by the project's marginal loss factor (and distribution loss factor where a generator connects directly to the distribution network) as set by AEMO (Consultation Paper).

Stakeholder response

This approach was supported by stakeholders in the written submissions.

It was also supported that in situations where the wholesale price is greater than the reverse auction strike price, the eligible project should pay the difference back to the scheme administrator (two-way CfD). A stakeholder submission recommended that any repayments be used to reduce future scheme costs for electricity users.

Furthermore, a financier noted that a two-way CfD would have no material impact on financing other than creating a need for suitable liquidity facilities.

"We are excited about the potential for renewable energy in Victoria and the long-term goal of building a thriving renewable energy industry in a state that has been reliant on fossil fuels for many decades. It is a significant shift but it is an inevitable one, and the introduction of state targets for renewable energy and an auction process that underpins the achievement of such targets will help that transition while also attracting significant new investment and creating local jobs." – Vestas Australia

6. Stakeholder findings – contracting elements

Proposed terms and conditions for long-term contracts executed under the scheme

Contracts will be designed to provide certainty to project proponents and to establish a clear allocation of obligations between parties, including contingencies for unplanned events.

1. Contracting elements

In the workshops it was expressed that these elements will be provided to project proponents prior to bidding (Consultation Workshop).

2. Contract counterparty

Department preliminary position

According to the consultation paper, the contract counterparty to successful project proponents will be determined by the final configuration of the scheme administration and cost recovery mechanism. This may be the State (through a statutory government agency), an electricity distribution business, or an electricity transmission business.

In the workshops, it was discussed that the scheme administrator is likely to be the counterparty for the purposes of the scheme contract. Furthermore, it was communicated that the scheme administrator is likely to be a separate party to the cost-recovery agent (Consultation Workshop).

Stakeholder response

The majority of the responses supported the contract counterparty being a statutory government agency.

Financiers expressed that the contract counterparty should demonstrate credit worthiness over the life of the contract (i.e. a credit rating of BBB+ or above) and have a low risk of change of ownership.

One financier noted that the overall financing costs of the scheme would be minimised where the State itself is the contracting counterparty rather than a department or sub-sovereign institutional entity.

3. Contract start date

Department preliminary position

It is intended that the contract tenure commence with the signing of contracts (Consultation Paper).

This will correctly incentivise project proponents to promptly construct and commission their projects, payments will be made once a project has started generating even though contract tenure will begin with the signing of contracts (Consultation Paper).

Stakeholder response

There were a number of project developers that expressed a preference for the contract term to commence from the date of project practical completion rather than execution of agreements.

4. Generation requirements

Department preliminary position

The Department is also considering including scheme contract elements which require the delivery of a minimum volume of electricity from participating generators. Where projects fail to do so, penalties would apply to compensate the State. A cap on the maximum volume that can be generated by a project under the scheme is also being considered to ensure scheme costs remain appropriate (Consultation Paper).

Stakeholder response

A financier expressed that it is not uncommon to cap annual dispatched quantity to ensure scheme targets are met at a reasonable cost.

Financiers expressed that minimum generation requirements will increase risks and will need appropriate adjustments/exemptions for force majeure events. In addition, project developers requested that minimum generation requirements be set at a conservative level to take account of the annual variability of the resource.

It was proposed by a project developer that the ACT approach be followed in setting the minimum generation requirements. It was expressed that this is set at a conservative level that is an acceptable safeguard for developers, financiers and government.

In relation to a project breaching the minimum generation requirements, a financier suggested that a breach should trigger a review event rather than termination. It went on to express that this could require the project to provide a cure plan, forward

“ABB is supportive of the Victorian Government’s initiative to further develop the Renewable Energy sector in the state and would welcome the opportunity for further consultation as the government refines its approach on the practicalities of implementing the policy over the next five years.” – ABB

looking generation estimates and remedy the situation in consultation with government.

5. Contract length

Contracts awarded under the auction scheme are proposed to run for between 10 and 20 years (Consultation Paper).

Stakeholder submissions

The vast majority of responses on this topic articulated a preference for 20-year contract length on the basis that a longer term will reduce the cost of financing.

One project developer submission estimated that a 20-year contract would reduce the CfD strike price by around \$5/MWH by reducing the cost of equity to around 9-10%.

One financier submission acknowledged the benefits of a longer contract length but proposed that the government make each auction round term agnostic. They explained that an agnostic approach to contract duration allows the market to signal their risk appetite.

6. Project delays

To prevent protracted delays to projects, appropriate contract termination clauses would be included in the contracts (Consultation Paper).

Stakeholder submissions

Submissions were aligned on an appropriate project delay threshold being six months from the scheduled commercial operations date.

Financiers expressed a preference for a further sunset date of up to six months, during which financiers would have step-in rights to ensure project completion.

It was articulated in one stakeholder submission that the scheduled commercial operations date should be project specific, rather than apply globally to all projects awarded in each auction. This date could be set out in an agreed project schedule, which also includes other key milestones (e.g. timing for financial close).

7. Payment terms and frequency

Payment frequency is proposed to be on a monthly or quarterly basis in arrears once the project starts generating. This would aim to balance monitoring and transaction costs for government and other parties with the cash flow needs of successful project proponents (Consultation Paper).

Stakeholder submissions

On payment terms, stakeholder submissions were nearly unanimous that payments should be made monthly in arrears. Responses noted that whilst the NEM payments are reconciled weekly, a one-month lag would only add a small cost to the project proponent strike price.

It was expressed that quarterly payments would have a greater impact on financing costs.

8. Other contracting elements

Stakeholder submissions

It was suggested in two responses that contract terms be kept simple and familiar by using the ACT scheme as a precedent as the ACT contract terms are understood by the market.

Specific comments on contracting elements to consider were:

- Contracts should be designed to allow projects to not generate at times when the reference price is below the floor price;
- Outside project delay thresholds, financiers would expect termination clauses to be limited to standard provisions such as Force Majeure and Compensation Regimes;
- Financiers would need protection against the event that the scheme or targets are repealed and a replacement offtake contract cannot be secured;
- A clear regime should be established for compensation if the contract is terminated due to default by the offtake counterparty or a change in Victorian law. This response suggested a formulation based on the 'close out amount' concept (the procedure to calculate and net the termination values of the transaction to produce a single amount payable between the parties) used in standard form International Swaps and Derivatives Association documentation.
- There can be an obligation on the proponent to deliver all environmental products that might replace LGCs;
- The contract will need to be three-way to include the financier. This is required where the financier has customary step-in rights and other protections for the CfD contract; and
- The contract will need to permit the granting of security over the company's interests in the contract in favour of its financier.

"We support the Victorian Government's plan to include non-cost-based selection criteria. In this submission we particularly focus on the proposed economic development and community engagement selection criteria. Further, we particularly focus on wind energy, as that has been identified as the predominant contender in the Scheme." – Community Power Agency et al

7. Stakeholder findings – scheme administration and cost recovery

Who will administer the scheme and how scheme costs will be recovered

In the workshops, the preliminary position of the Department was for the cost recovery framework to incorporate the following elements:

Customers – payments for the scheme are passed through customer bills;

Cost recovery agent – the party that the scheme costs are recovered through;

Scheme administrator – the contract counterparty to the project proponent and the administrator; and

Project proponent – the party awarded a contract under this scheme (Consultation Workshops).

1. Scheme administrator

The role of the administering body would include forecasting future scheme costs, paying generators for awarded contracts under the scheme on behalf of the State, and managing any under- or over-recovery of scheme costs (Consultation Paper).

Department preliminary position

In the consultation paper it was expressed that the Department is considering a number of options in relation to how the scheme will be administered. The options being considered include requiring one of the following parties to administer the scheme on behalf of the government:

- A statutory Victorian Government agency (either existing or newly created for this purpose);
- Victorian electricity distribution businesses; or
- The State's privately owned transmission business.

In the workshops, the Department expressed that a Statutory Victorian Government agency (either existing or newly created for this purpose) may be the appropriate party to administer the scheme on behalf of the government (Consultation Workshops).

Stakeholder response

Stakeholder submissions were supportive of government or a statutory government agency administering this scheme on the basis that it is not practical or efficient for networks to take on this role.

In terms of scheme cost pass-through timing, a network and financier recommended that the scheme administration costs be passed on annually in arrears. This was acknowledged to have Victorian Government budget implications, but it will simplify administration by avoiding adjustments.

2. Cost recovery agent and mechanism

In the consultation paper it was contemplated that scheme costs could be recovered via either electricity distribution businesses, the State's privatised transmission business, or electricity retailers, and ultimately passed through to customers' bills.

Department preliminary position

In the consultation paper the Department considered that cost recovery through electricity distribution businesses is most likely to achieve the objectives of:

- Administrative simplicity;
- Flexibility to vary the amount recovered as scheme costs increase/decrease over time;
- Transparency (in relation to how cost recovery has been undertaken); and
- Minimised monitoring and compliance costs.

Stakeholder response

The majority of submissions recommended that the scheme costs be recovered via customers' bills.

A retailer and network submission proposed that the cost recovery mechanism be the Victorian Government Budget. This retailer submission expressed that this enables government to properly and accurately measure costs and benefits associated with scheme, while maintaining transparency with constituents. The network submission expressed that using customer bills to recover costs may have a distortionary effect on electricity use and grid disconnection. It was also communicated that this approach is inconsistent with cost reflective pricing principles.

An energy industry association also recommended that the Smelter Reduction Levy expiring in 2016 be used for the cost recovery mechanism.

"We applaud the Victorian government for committing to this scheme and to the medium term target of 40% renewable energy by 2025.

Victoria's ability to fully capitalise on the international boom in renewable energy investment has been significantly hampered in recent years by political vacillations around climate and renewables policy, especially the federal Renewable Energy Target (RET)." – Australian Wind Alliance

In relation to the cost recovery agent, a network submission suggested that this be done at transmission level to minimise administrative costs and allow equal distribution of costs across all customers. An energy industry association supported the use of the State's privately owned transmission business, while retailers expressed that it would be administratively simpler to use the Victorian electricity distribution businesses.

A submission by a network stated that there may be costs associated with acting as the cost recovery agent which it cannot pass through to consumers. These costs relate to tax implications from undertaking this role. It was noted that compensation for additional costs will need to be separately recovered from customers' bills under this scheme.

3. Scheme exemptions

Department preliminary position

In the consultation paper it was expressed that the Department is considering exempting emission intensive trade exposed (EITE) companies (as defined under the Federal Government's RET scheme) from paying scheme costs (Consultation Paper).

Stakeholder submissions

A submission by a network operator expressed that the exemption of certain customer classes would be difficult at the network level as the National Electricity Rules are likely to preclude tariff discrimination on this basis.

There was an even split of stakeholder views on whether or not to exempt EITE companies.

A number of submissions were in favour of exempting electricity intensive trade exposed industries in addition to or instead of EITEs. In determining parties that are electricity intensive trade exposed, stakeholders referred to threshold already used under the Victorian Energy Efficiency Target to determine site-based exemptions.

8. Stakeholder findings – auction evaluation principles

How auction bids should be assessed and successful projects determined

An important element in auction design will be the evaluation principles that should be considered when assessing auction bids. Key topics are addressed below, and a full summary of responses for each evaluation criteria is provided in Table 2.

1. Advance notice of criteria and weightings

In the workshops it was expressed that the Department is likely to communicate the proposed evaluation criteria and weightings in advance of the first round of auctions (Consultation Workshops).

2. Minimum project size

Department preliminary position

In workshops possible thresholds were discussed. It was conveyed that it is likely that projects will need to participate in the National Electricity Market to be eligible to participate in this scheme. Support for projects that are below a minimum generation capacity or that are 'behind the meter' will be provided through other avenues such as New Energy Jobs Fund.

Stakeholder response

In the written submissions, a wide range of views on minimum project sizes were expressed.

These ranged from 5MW to 30MW for solar and 30MW to 60MW for wind.

Justifications used to support the minimum project size recommendations were:

- ARENA's recent auction had a 12MW minimum;
- 20MW on the basis that bankability and profitability may be less likely for smaller projects; and
- 30MW as this is the historical threshold for semi-scheduled generation into the NEM set by AEMO. Semi-scheduled plants are able to have their power limited by AEMO in response to network constraints.

"The Renewable Auction Scheme (the Scheme) offers significant opportunities for job creation and industry development in Victoria. This submission details how DELWP can use the Victorian Industry Participation Policy (VIPPP) and ICN services to help increase participation of local small to medium enterprises (SMEs) on renewable projects. It can also help build sustained local capability and job creation in the sector." – Industry Capability Network

A peak body recommended that if the minimum project size under this scheme is below 30MW, these projects could also be required to register with AEMO as 'semi-scheduled'. It was explained that this would help manage network congestion.

Finally, one response addressed the maximum project size, stating that the 200MW cap in the ACT should not be followed.

3. Economic development criteria

Department preliminary position

The ability for projects to contribute to Victorian economic development will be viewed favourably (Consultation Workshops).

In the workshops, when prompted on whether projects would need to be sited in Victoria, it was communicated that it is anticipated that projects will need to feed the dispatched power into the Victorian network to contribute to the State targets, as well as demonstrate investment and jobs flowing to Victoria (Consultation Workshops).

Stakeholder responses are set out in [Table 2](#) below.

4. Expressions of interest

The Department queried whether there would be benefit in asking proponents to submit expressions of interest to participate in auctions. This would lead to only more advanced projects proceeding to the full evaluation round.

Stakeholder submissions

There were three stakeholders in favour of an expression of interest (EOI) stage and five against. The EOI stage was viewed as a way to help create stronger opportunities for smaller businesses and consortiums to participate in the scheme by knowing which project proponents to engage with.

The majority of responses on this topic felt that that an EOI stage was unnecessary so long as there are strict eligibility criteria for participating in the scheme.

Responses expressed that eligibility criteria may include:

- Locational caps (in cooperation with AEMO) in areas of current or potential congestion to incentivise projects in areas where network capacity is available;

- Bankable land agreement, development approval, and/ or invitation to connect in place or in progress; and
- Evidence of financial capability to deliver on the contract if successful. This could be in the form of a bid bond.

In addition, a financier expressed that there is a significant benefit in shortening the steps in the auction process. This will enable the auction outcome to be delivered efficiently, which ensures changes in interest rates and exchange rates are minimised between bid date and contract signing.

“KPE believes it is valid to say that the proposed architecture for the scheme appears to offer a well-considered and practical basis that will:

- *provide leadership for Australian government’s considering their response to the climate change crisis facing our planet*
- *inject new confidence into the renewable energy sector in Victoria, providing certainty to project proponents at minimal extra cost to Victorian consumers.” – Keppel Prince Engineering*

Table 2: Stakeholder responses to the auction evaluation principles

Evaluation Principle	Factors expected to be assessed	Stakeholder comments
Value for money	This will include the project costs and auction price bid, with lower bids helping to minimise scheme costs for Victorian consumers.	<p>Stakeholders expressed that this principle is of greatest importance when assessing projects.</p> <p>A couple of specific recommendations from responses were:</p> <ul style="list-style-type: none"> • A financier expressed that it is important that the State considers the time value of renewable energy at a network level. Mechanisms such as time-block bidding categories (used in renewable energy auctions in South Africa, Chile and elsewhere) could address this; • Projects should not be required to obtain a separate PPA outside of the scheme to be eligible for funding; and • A consideration under this principle may be the expected level of support required. Projects that require less support could be prioritised. For example, a project seeking a 12 year CfD for 75% of proposed project capacity could be prioritised over projects seeking 20 years and 100% coverage.
Economic development	The ability of projects to contribute to Victorian economic development will also be viewed favourably. In particular, the contribution of projects to Victorian jobs, development of supply chains (including services and manufacturing capability), maximising local content, promotion of local industry competitiveness, regional development and broader economic benefits (such as headquarter siting) will factor into auction evaluation.	<p>Stakeholders suggested that more specific KPIs around this principle be developed.</p> <p>A couple of specific stakeholder comments were:</p> <ul style="list-style-type: none"> • Victorian Government must promote Australian-made components and in particular Victorian-made solutions. This could be addressed by a local content weighting that is two-tiered: lower tier being Australian content and upper tier being Victorian content and contracts for jobs and capacity building; and • Demonstration of how many local jobs will be created and where. A way to address this may be by adopting the Victorian Industry Participation Policy, which requires 10% local content.
Wholesale market participation	Projects will be expected to be NEM metered, rather than operating 'behind the meter' or off-grid.	See section 8.5 above. Stakeholders felt that this could be part of the eligibility criteria rather than the auction evaluation principles.
Timely construction and operation	Achieving Victoria's targets by 2020 and 2025 will require the selected projects to be completed in a timely manner. The ability of projects to complete construction and begin full operation within a specified timeframe will be a crucial part of auction evaluation. This will include consideration of a project's financial and planning status as well as the capability and capacity of the proponent to successfully implement the project.	<p>Stakeholders suggested that the stage of project development could be part of the eligibility criteria for auction participation set out in section 8.5 above.</p> <p>In addition, stakeholders felt that the following were important considerations:</p> <ul style="list-style-type: none"> • Delivery capacity of the project proponent; and <p>An assessment of a project's financing plan should be undertaken.</p>

“Geelong Sustainability is encouraged that the principles to be used to develop an evaluation criteria for assessing auction bids, focus on a range of quality outcomes, in addition to value for money, and we think this a good way to attract quality bids.” – Geelong Sustainability

Evaluation Principle	Factors expected to be assessed	Stakeholder comments
<p>Electricity transmission network interactions</p>	<p>Consideration will be given to a project's progress towards attaining a network connection, and the direct and indirect costs of doing so, such as required transmission line augmentation. Where appropriate, greater weighting will be attributed to projects that assist with grid stability and result in lower overall network augmentation costs to being passed on to Victorian electricity consumers.</p>	<p>All submissions expressed that it is reasonable to give consideration to a project's progress towards attaining network connection approval.</p> <p>While project developers felt that proponents were best-placed to manage network risks and that they will be reflected in the bid prices, retailers and peak bodies expressed a different view. These parties expressed that the indirect costs of projects must be independently assessed by AEMO, in conjunction with the networks.</p> <p>The justification for this position was:</p> <ul style="list-style-type: none"> • Retailers – a submission communicated that there is a real risk that projects built earlier in the scheme will be disadvantaged by projects that are built later and cause or add to congestion. Furthermore, projects being built in and around northern Victorian could impact interconnection and cross-border projects such as Silverton (in NSW); and • Peak bodies – it was seen as important that AEMO provide technical and economic advice on network issues for shortlisted projects, in conjunction with network businesses.
<p>Contribution towards Victoria's targets</p>	<p>The ability of a project to support the achievements of the government's targets will be crucial. For example, a project with a high capacity factor (the average output for a given amount of installed capacity) would make a greater contribution to Victoria's targets than an equivalently priced project with a lower capacity factor.</p>	<p>Stakeholders understood the scale benefit of larger projects that have an equivalent strike price.</p> <p>Project developers expressed that the capacity factor of projects should always be reflected in the MWh strike price offered. Therefore, it was communicated that projects that are smaller in generation capacity, but are better value for money (offered for a low / competitive strike price that minimises the overall cost of the scheme) should not be disadvantaged on the basis that they will deliver a smaller contribution to the target.</p>
<p>Community engagement</p>	<p>Projects will be expected to demonstrate best-practice community engagement. This is expected to include engagement activities undertaken in the planning stage of project development, as well as plans for ongoing community engagement during project construction and operation. Further guidance on community engagement practices is expected to be provided to participants in the period before the auction process.</p>	<p>Project developers and retailers felt that best practice community engagement expectations should be outlined by the Victorian Government and addressed as part of the strict eligibility criteria that are not weighted.</p> <p>Conversely, a number of industry groups and associations would like to see this scheme build on the ACT model by incentivising benefit sharing and co-investment opportunities. These stakeholders noted that weightings of at least 20% to this principle have encouraged better community engagement and benefit sharing practices. One stakeholder suggested that a Victorian organisation/advisory group be engaged to assist bidders to develop meaningful community partnerships.</p>

“Canadian Solar congratulates the Government of Victoria on this encouraging forward-looking initiative to adopt a target of 40% RE by 2025. RE is a proven technology with enormous benefits to the local economy and will spur and drive many new business opportunities in the State.” – Canadian Solar

