

Victorian Renewable Energy Auction Scheme

Securing Victoria's renewable energy future

The Auction

The Victorian Government will establish the Victorian Renewable Energy Auction Scheme (VREAS) to support achievement of the Victorian Renewable Energy Targets (VRET). These targets seek to ensure that 25 per cent of the State's electricity generation comes from renewable sources by 2020, rising to 40 per cent of generation by 2025.

In mid-October 2017, an auction will be open for bids under the VREAS. In this auction, the Victorian Government will award commercial contracts in support of up to 650 MW of new renewable energy generation.

The format of the auction will be a reverse auction. Wind, solar and other bids from renewable energy projects will be submitted under a formal Request for Proposal (RFP).

The RFP will set out the detailed terms of participating in the auction, how proposals will be considered in relation to 'value for money', and the overall governance framework.

Successful proposals will be awarded a 'Support Agreement' with the State of Victoria, which will establish a Hybrid payment mechanism between the proponent and the State, to ensure revenue certainty for renewable energy projects.

The payment mechanism

Under the Support Agreement, successful proponents will be paid through a Hybrid payment mechanism, which is a mix of a fixed-price payment (FP) and a variable contract-for-difference payment (CfD).

The first component of the payment mechanism is the two-way CfD payment, which will be paid on a monthly basis.

Under this mechanism, the State will set the CfD 'strike price' for the CfD component in the form of \$/MWh of eligible electricity generated. The strike price will be detailed in the Request for Proposal (RFP) document ahead of the auction and be reflective of eligible renewable energy sources.

Under the CfD payment, for each MWh of eligible electricity, the payment owed will be calculated through the difference between the set CfD strike price and the price of that MWh in the wholesale market, in the relevant wholesale market pool.

The State will owe a successful proponent the difference, where the price of the MWh is below the CfD strike price. However, when the price of the MWh is below \$0/MWh in the wholesale market pool, the state will only pay the amount between the CfD strike price and a \$0/MWh floor price.

As this is a two-way CfD, a successful proponent will owe the State where the price of the MWh is above the CfD strike price in the wholesale market pool.

Amounts owed will be determined for each 30-minute trading interval, which will be aggregated, and the net amount owed, paid monthly in arrears.

The second component of the payment mechanism is the FP payment, which will be paid on a quarterly basis in the form of \$/MW/year.

Under this mechanism, proponents will bid into the auction for the FP payment. The FP payment is intended to reflect the guaranteed revenue, required by proponents, to support their project in addition to the revenue certainty provided under the Government-set CfD payment.

While the Hybrid payment mechanism is a departure from the traditional pure-CfD model, it still retains a CfD component, and has been designed in such a way to ensure more control for Government over State budgeting requirements.

The support agreement

The payment mechanism will be embedded within the Support Agreement, which will be 15 years in length.

It is intended that a 15-year Support Agreement will provide enough certainty to proponents, ensuring competitive bids, without greatly impacting project financing.

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The Support Agreement will include additional features, not limited to the following, which will be further detailed in the RFP:

- The requirement for the proponent to meet project milestones, to ensure timely and appropriate construction, commissioning, operations and maintenance of the project.
- The option of a tripartite agreement for the proponent.
- Termination rights for both the proponent and the State, that will help ensure the integrity of the VREAS and not expose the Victorian Government and community to significant risk.
- The requirement for the proponent to develop and adhere to its detailed commitments under a Communications and Community Engagement Plan; Safety, Health and Environment Plan; and local Victorian investment commitments.
- Protections for both the proponent and the State in the event of a change in law.
- Clear interaction between the VREAS and the Federal Renewable Energy Target (RET).

The Support Agreement will be signed by the Minister for Energy, Environment and Climate Change on behalf of the State, and will be administered by the Department of the Environment, Land, Water and Planning (DELWP).

The interaction with the Federal RET

Consistent with previous Victorian Government announcements the VREAS will be complementary to the Federal RET before 2020, and additional after 2020, so that successful projects under the auction will be able to be complementary with the Federal RET.

This complementarity is intended to overcome any continued uncertainty around the Federal RET and contribute to its achievement in 2020.

Proponents intending to participate in the auction will be required to have the ability to commence commercial operations before the last quarter of the 2020 calendar year. This should allow them to create Large-scale Generation Certificates (LGCs) before the end of 2020.

Complementarity will be available through two LGC treatment pathways, whereby the Government will request two auction bids:

- one auction bid that includes the bundled transfer of all LGCs from projects to the Victorian Government, which will then be re-sold by Government, and;
- one auction bid that includes no transfer of LGCs from projects to the Victorian Government, in which case LGCs can be traded by successful proponents.

The State will retain the right to select its preferred LGC treatment pathway from each project based on overall value for money assessment.

In both scenarios projects will be required to be accredited under the Federal RET and any LGCs created will be able to be complementary for the life of the project.

The mandatory participation criteria

All potential proponents in the auction will first be required to meet certain mandatory criteria to participate and enter into a Support Agreement with the State.

The auction is intended to bring forward investment in new renewable energy generation capacity, requiring participation in the auction to be for new projects.

The minimum criteria will ensure that only new projects including those which have not yet reached financial close may bid, noting that some preliminary works may have commenced.

Expansions of existing projects and proportions of new projects will also be eligible under the auction.

As part of the VREAS proponents must propose a single contracted entity to be legally responsible for the auction RFP submission and the Support Agreement.

This is to assist the State with administration of Support Agreements under the VREAS.

The first auction is open to all renewable energy sources, including wind and solar, but they must be consistent with the Renewable Energy (Jobs and Investment) Bill 2017.

All projects must be connected to the National Electricity Market at a single connection point and must be of a size no smaller than 10 MW.

This is to assist with the administration of the VREAS, and ensure smaller projects can participate.

A current planning permit from the relevant authority will be required for all projects.

Auction participation is also conditional on the proponent meeting other mandatory criteria, which will be set out in more detail in the RFP.

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The evaluation process

The economics of individual projects is an important component of the VREAS and proposals will be assessed for 'value for money'. Auction bids will be evaluated with criteria available in the formal RFP in mid-October 2017.

The auction timing

The formal RFP and VRET Support Agreement are intended to be released in mid-October 2017. The RFP will set out the detailed terms of participating in the auction, how proposals will be evaluated, and the overall auction governance framework.

Following the release of the RFP potential participants will be given three months to complete their proposal and submit it through the tender process.

Proposals will then be evaluated by the independent external evaluation panel, which will take between two and three months.

Successful proponents will then begin the process of entering into a Support Agreement with the State, following which, successful proposals and proponents will be announced.

Auction design

The Victorian Government has selected the VREAS as the key mechanism to contribute to the VRET as it provides flexibility and allows auctions to be tailored to reflect current market conditions and national policy settings.

This auction has been designed to incentivise renewable energy in Victoria in a way that is reflective of the market at a point in time. The details and design of this auction are therefore specific to this auction only.

Designing the auction in this way allows the Victorian Government to learn from practice and adapt to changes in technology costs, broader market conditions and national policy settings. The auction settings and other design features will remain flexible to ensure the Victorian Government achieves the most effective and value for money outcomes for the State.