

31 August 2016

CONSULTATION PAPER RESPONSE

Dear Sir/Madam,

Thank you for the opportunity to respond to the Victorian Renewable Energy Auction Scheme Consultation Paper. We have found the Consultation Paper to be a very interesting document and are very much encouraged by the positive action taken by the Victorian Government in relation to establishing ambitious renewable energy investment targets and mechanisms for delivery.

CleanSight is a renewable energy project and electricity market participant, with extensive experience in developing and financing large-scale renewable energy projects in Australia and internationally. The company works across the board, from site identification, design, environmental impact assessments, grid connection, power purchase agreement (PPA) procurement, financial optimisation and project management to financial close.

Please find following responses to the Consultation Paper questions.

1. Scheme structure questions

How can the Department 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?

It takes considerable time and resources to prepare a project for bidding into an auction, therefore for proponents to prepare for the scheme it is important Victoria has long term and structured plans published to incentivise the market.

How much notice should be provided to industry of upcoming auctions?

A rolling five year plan of auction capacities would be beneficial, updated annually, with a detailed two year plan of upcoming auctions will assist in driving investment in developments.

Should capacity be auctioned in consistent capacity tranches (e.g. 200MW etc)?

Limiting auctions to a certain capacity cap will constrain the markets capacity to deliver at least cost. For example, a 200MW cap is a poor fit for a 300MW project. Therefore, it is suggested flexibility be built in to allow award to large projects, which will drive prices down and deliver greater benefits to the State.

The capacity cap should be for the five year period, with the State using its discretion to determine the number of projects and their capacity on receipt of the bids in each auction round.

It would not be an ideal outcome if a somewhat arbitrary cap limiting capacities resulted in proponent's inability to deliver large complying projects, at least cost.

At what frequency should auctions be held?

Six monthly would maintain an active and fluid market.

What proportion of scheme generation should be dedicated to solar projects?

The scheme should be technology agnostic to avoid market distortions.

Should the proportion of solar be different pre and post 2020 to allow a solar pipeline to develop and technology costs to come down?

Such an approach may result in unintended consequences and therefore we again suggest the scheme should be technology agnostic.

Are there any other matters the State should consider when setting the scheme's technology split?

We currently are working on a very innovative and exciting trigeneration chicken litter powered biomass plant. There is no reference to biomass in the Consultation Paper and we therefore again encourage a technology agnostic approach to ensure all market competitive innovative forms of renewable energy are capable of competing.

What is the best way to treat LGCs under the scheme 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 is attracted?

By hybridising the LGC and auction markets, there are an array of effects on the broader market. There will be unintended consequences on existing stakeholders in projects, including; project developers, debt and equity financiers, but also current offtake contract counterparties and LGC spot market traders.

The unintended consequences on the LGC market may have considerable negative impacts and therefore we encourage the de-coupling of LGCs with the auction process and suggest the projects be treated as "GreenPower" projects, as has been the case under the ACT Feed-in Tariff auctions.

What are stakeholders thoughts about complementarity/additionality if the Federal RET were extended/expanded?

As per the previous question, we strongly encourage de-coupling of LGCs from any offtake awarded under the auction process.

2. Payment structure questions

Do stakeholders agree with the proposed CfD payment structure approach?

We agree that the CfD structure is optimum.

If a CfD payment structure is used, on what basis should a NEM reference price be set? (e.g. monthly average, half hourly NEM price)?

Please consider the following points carefully;

- The least cost to Victorians is not the lowest strike price bid, as stated in the Consultation Paper;
- The least cost to Victorians is the sum of difference between the strike price and the NEM spot price for all 30 minute periods.

Averaging the NEM prices on a daily, weekly or monthly basis does not consider the time of day a project generates or the ultimate cost of the scheme.

If seeking a least cost approach, 30 minute NEM prices should be used.

Highly experience professional developers will be seeking to develop sites that minimise the cost of the scheme based on 30 minute NEM prices. So as they are rewarded for endeavouring to deliver least cost renewable energies, it is strongly recommended that averaging of NEM prices for periods greater than hourly is not implemented.

What would be the impact of adding a floor price to cap the total payment applicable in any one period?

A 30 minute NEM price floor of \$0/MWh is reasonable if no LGCs are awarded to a project.

However, should LGCs be created, then the price floor should be the negative value of the LGC. For example, if the strike price is \$100/MWh and the LGC worth \$50, then a NEM floor price of -\$50/MWh would actually see the net amount payable under the scheme being \$100/MWh.

Do stakeholders agree that payments should be made under the scheme based on energy delivered as defined above? Are there other ways that stakeholders consider are possible to provide locational signals to projects to ensure they are appropriately sighted on the network?

Application of MLF is reasonable. However, MLF does vary over time, creating project risk which results in increased costs. Therefore, it is proposed that the current MLF at the time of the award of a contract be a fixed MLF value for the life of the contract.

Do stakeholders consider that any alternative payment structures could be employed for the scheme, such as a fixed payment approach? If so, what are the relative advantages and disadvantages of these options?

Feedin tariff structures international have resulted in rapid update of large amounts of renewable energies. Such a structure is far less administratively cumbersome and results in rapid deployment of renewables, with the uptake being a function of the tariff that is being set.

To ensure at market prices are set, an auction type process could be undertaken periodically, say biannually.

Do stakeholders agree that a fixed payment approach would be less likely to address the barriers faced by project proponents in relation to attaining project finance, resulting in lower value for money bids?

We would need additional information to consider this structure properly.

3. Contracting elements questions

Are the above contract elements broadly appropriate?

Within the contract range of 10 to 20 years, is there an ideal duration, particularly with the aim of minimising project financing costs?

A 20 year contract is required to minimise project financing costs, ultimately resulting in least cost to Victorian consumers. A 10 year contract will result in significant uncertainties and increase project costs.

The project design lives are 20-30 years. If the scheme is encouraging projects to operate this long, it really should support the revenue for the project's life as well.

What would be an appropriate project delay threshold for contract termination clauses?

Legal advice is suggested to determine current thresholds considering EPC delays and financier step in rights.

Would quarterly payments have a significant impact on financing costs compared to monthly payments?

Monthly payments are considerably more favourable.

What are the implications of a two-way CfD?

Two-way CfD can be accommodated.

What do stakeholders think about the generation requirements being considered? Where maximum and minimum generation volumes are contained in scheme contracts how should these be set?

Maximum and minimum generation volumes depend on the period being considered and force majeure provisions.

Given the variability of energy resource, we propose the maximum and minimum volumes be based on the average over two years, to minimise impact of annual variability of resource.

A target of +/- 50% of the annual pre-MLF P50 (10-year) generation over two years, would be acceptable to most projects.

Legal advice regarding force majeure is encouraged, to identify market based terms. It is noted, in particular third party risks such as grid network constraints or failures, should be excluded from maximum and minimum volume requirements.

Are there any other contract elements that should be considered?

Regulatory risk and termination provisions are highly sensitive risks for projects. We strongly recommend current market legal advice be obtained in these areas.

Are any of the elements likely to lead to perverse outcomes?

Regulatory risk and termination provisions have fundamental implications to financing projects. Sound legal advice from active lawyers in the project financing market is encouraged to ensure the scheme does not fail or results in action bids being higher than is really necessary.

We would also strongly recommend engagement with the banking sector prior to resolving a scheme, as they may well be providing 60-70% of the funds to projects.

4. Auction evaluation questions

What do stakeholders think of the proposed evaluation criteria set out above?

Only considering the lowest price bid is in the value for money section is simplistic and will result in excessive costs.

To minimise the cost of the scheme it is critical to consider the sum of the differences between the strike price and NEM 30 minute price over the project life.

Value for money evaluation should consider the total amount of money expected to be recouped through the distributor over the life of the project.

To assess the true value for money, proponents should submit a 30 minute timeseries of generation data which is multiplied for 30 minute forecast electricity prices to determine the difference that would be payable. To do this, Victoria would need to engage a electricity price forecasting consultant.

Do stakeholders have views on how evaluation criteria might be weighted?

No comment.

Are there other evaluation criteria/principles that the Government should consider to ensure the scheme meets its objectives?

No comment.

Are the costs associated with developing a proposal to bid into the scheme based on addressing the above criteria effectively likely to be prohibitive?

Bid costs should be kept to a minimum. A well considered contract will be fundamental to minimising bid time and expense for proponents.

What would be appropriate minimum project sizes (both in general and for large-scale solar)?

No comment.

Would there be benefit in asking proponents to submit expressions of interest to participate in the auctions to ensure only more advanced projects proceed to the full evaluation round and that costs are minimised for project proponents where possible?

Rather than an EOI process, it would be more efficient to have strict criteria that any bidding project would need to have achieved. For example, projects must;

- Be under \$110/MWh
- have completed 12 months wind monitoring
- have received a full tender from a turbine supplier

Such criteria will put suitable hurdles in place to avoid unnecessary effort from prospective proponents.

Thank you for the opportunity to provide responses to the Consultation Paper. Should you have any further questions, please do not hesitate to give me a call.

Yours sincerely,

A handwritten signature in black ink, appearing to read "James Pennay". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "Pennay".

James Pennay
Managing Director