

31 August 2016

Submitted by email to: renewable.energy@delwp.vic.gov.au

RE: Submission to Victorian Renewable Energy Auction Scheme

Thank you for the opportunity to make a submission on Victoria's Renewable Energy Auction Scheme. Successfully driving the rapid up-take of renewable energy plays an important role in reducing the pollution from Victoria's electricity sector.

About Environment Victoria

Environment Victoria is one of Australia's leading independent environment groups. With over 40 member groups and tens of thousands of individual supporters, we've been representing Victorian communities on environmental matters for over 40 years.

Defining the renewable energy target

Environment Victoria welcomes Victoria's target of 40 percent renewable energy by 2025 and the commitment to build 5400 MW of renewable energy by 2025. It is however worth noting the implications of presenting this target as a percentage of generation rather than an amount in megawatts (MW) or gigawatt-hours (GWh).

A target defined as a certain MW capacity would ensure that the closure of a coal-fired generator would not detract from the amount of renewables built in Victoria. For example if Hazelwood power station closed, this would reduce the percentage of coal generation and increase the renewables percentage by default. In this scenario, Victoria could lose around 1000 MW of renewable energy and deprive Victoria of the associated investment and employment opportunities.

Our preferred solution to this problem is to define the target as 5400 MW (for 2025). That way, if coal power stations are removed from the grid, a certain amount of renewable energy is still guaranteed. This would give more confidence to project developers that there is a more certain demand, helping to ensure a more robust pipeline of projects and broader industry development. If building that much renewable energy capacity ultimately results in achieving a higher percentage of renewable generation than 40%, this should be seen as a positive, not something to be avoided.

The proposed auction scheme

The discussion paper states that the Government has set the above targets to 'create jobs, stimulate economic development and reduce greenhouse gas emissions.' It is therefore crucial that this scheme achieve these aims.

Reducing emissions

- The discussion paper suggests that a cap on maximum volume that can be generated by a project is being considered. Given the objective of the scheme is generating renewable energy to reduce emissions, it is illogical to limit a project's potential to generate clean energy. We strongly oppose setting maximum output limits.
- The proposed payment structure incentivises proponents to locate their projects in parts of the network that minimise line losses. There are two issues with prioritising projects close to existing infrastructure.
 1. Unlike a coal-dominated grid, a renewable energy powered grid will benefit from projects that are positioned in a diversity of geographic locations. For



example, incentivising wind farms in eastern Victoria will improve stability of supply when the wind is not blowing in the west.

2. Victoria needs to be building an energy grid that is fit for purpose, and that purpose is the rapid transition to 100 percent renewable energy. For this reason, government needs to give consideration to ensuring grid infrastructure is available where the renewable resources are, rather than trying to force new projects to build near existing infrastructure.
 - The discussion paper also suggests that (as under the federal scheme) ‘emissions intensive trade exposed companies’ will be exempt. There is no explanation in the discussion paper for why this should occur. We suggest that any exemption for EITE businesses should be conditional on those businesses lodging ambitious emission reduction pledges under the Victorian government’s climate pledge program. Such a requirement could actively help individual companies to save money through energy efficiency measures.

Creating jobs and stimulating economic development

Three things the government can do to ensure strike prices remain low in the auction process are:

- Ensure the administrative burden is low,
- Award long contracts to provide certainty,
- Make sure the government carries the majority of risk.

While low strike prices are important, we support the evaluation principles that also give weight to the project’s contribution to Victoria’s climate targets, community engagement, economic development considerations such as local supply chain benefits alongside value for money, and (as noted above) the location of the project with respect to the current location of the grid.

Some consideration should be given to whether there is scope for community scale projects to access this scheme. Measures to allow this could include carving out a small percentage for community power projects that are below that currently proposed minimum size for projects. This would recognise that the solution to Victoria’s future energy needs will not come exclusively from large-scale development.

How this scheme could support the Latrobe Valley

If the scheme is administered by a statutory government agency, this agency could be based in the Latrobe Valley to bring new jobs and economic activity to the region as it transitions away from coal.

If projects near existing transmission lines are prioritised, consideration should be given to possible projects in or around the Latrobe Valley, which though not as well resourced, could contribute to geographic diversity of projects and the related stability benefits.

The missing piece: phasing out coal-fired power stations

Using a contracts-for-difference model, the risk to government is low wholesale prices and low LGC prices. The higher the wholesale price, the lower the cost of this scheme to Victorian consumers.

The missing piece in Victoria’s energy policy is a process to phase out coal-fired power stations. Due to low short-run marginal costs relatively to black coal in NSW and Queensland, brown coal generator retirement would likely raise wholesale electricity prices, reducing the costs of this scheme.





Further, if the state government set a timeline for the phase out of coal plants, it would send a clear signal to investors and project developers that there will be a very strong demand for more renewable energy in Victoria.

Regards,

Dr Nicholas Aberle
Campaigns Manager
Environment Victoria

