Dear Sir/Madam,

Submission on the Victorian Renewable Energy Auction Scheme Consultation Paper

Union Fenosa Wind Australia Pty Ltd (UFWA) welcomes the opportunity to provide a submission for the Victorian Renewable Energy Auction Scheme – Consultation Paper.

UFWA is a subsidiary of a Spanish utility called Global Power Generation (GPG) that is dedicated to international power generation projects and currently manages an installed capacity of over 2,800 MW. GPG is a subsidiary of the Gas Natural Fenosa Group (GNF Group) that is one of the leading multinational companies in the gas and electricity sectors. GNF Group operates in over 30 countries, and supplies gas and electricity to more than 23 million customers. With approximately 15.4 GW of installed power generating capacity, GNF Group has a long history of successful renewable energy projects around the world.

UFWA has eight wind farm projects (in development, approved and early construction stages) across Victoria and NSW. This portfolio represents a potential investment of approximately $2.0 billion in renewable wind energy generation. Once complete, the portfolio would increase Australia’s wind generation capacity by over 1,000 MW.

UFWA’s Victorian Wind Farm Projects are:

- Ryan Corner Wind Farm (Approved)
- Hawkesdale Wind Farm (Approved)
- Berrybank Wind Farm (Approved)
- Darlington Wind Farm (Feasibility)
- Tarrone Wind Farm (Feasibility)
UFWA has recently secured a 20 year Feed-in Tariff from the ACT Government for the competitive ACT Next Generation Renewables Auction for the 91 MW Crookwell 2 Wind Farm project in NSW.

To ensure the Victorian Renewable Energy Auction Scheme achieves its objectives, it is imperative that it is designed appropriately to overcome the existing market challenges faced by large-scale renewable energy projects. This submission will follow the structure of the Consultation Paper and provide concise responses to the framework questions.

1. Scheme Structure

(a) 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?

The Department needs to streamline assessment process, and fast track amendment applications for wind farm projects with existing Development Permits.

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

Initially a 6 month notice for the first auction is appropriate as the industry needs to become accustomed to the process and details required, following auctions can be run with minimum of a 3 month notice.

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

To achieve the scheme’s objective in a short timeframe and also achieve competitive pricing, it is important to provide a large enough capacity to enable most projects to tender their entire output rather than to scale it down to fit a smaller size as that would only drive up the price of the bids. Proposed capacity tranches to be 400-500MW, with minimum 30MW and no maximum bid size contracts. To get further value and competitive pricing, the Auctions should allow for multiple bids from proponents to encourage more scale for their turbine contracts that would drive down the price.

(d) At what frequency should auctions be held?

In consideration that the scheme requires a 1,500 MW portion pre-2020 and 3,900 MW portion between 2020 and 2025, the auctions need to either be much larger in capacity tranches or run very frequently, to achieve more competitive pricing and
reduce administrative and evaluation costs it is more desirable to have larger capacity tranches and a 6 monthly auction frequency is likely to deliver the desired outcomes.

(e) *What proportion of scheme generation should be dedicated to solar projects?*

The nominated 20% of overall scheme capacity reserved for Large-Scale solar projects is reasonable.

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

The cost of energy for Wind Turbine technology has also reduced, the Victorian Government can have alternate auctions where Wind and Solar can compete within the same auction similar to ACT’s Next Generation Renewables Auction.

(g) *Are there any other matters the State should consider when setting the scheme’s technology split?*

Consideration could be to auction energy generation instead of capacity.

(h) *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?*

To enable desired level of project financing and to drive down the cost of the contracts, is to provide a long-term CfD contract (Minimum 20 years) for bundled output which removes merchant risk for the project. For the Pre-2020 LGCs the Victorian Government can establish a clearing house with a floor price, refer to response in 3.(h) below.

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

Complementarity will potentially reduce cost to the scheme, where additionality can add extra cost to scheme, although the economic benefits for the state is far greater if additionality due to extra investment in addition to the RET required investments.

If RET was expanded significantly and more LGCs are required, the scheme could rollover to complementarity, if RET was extended then additionality will ensure more investment in Victoria.
2. Payment Structure

(a) **Do stakeholders agree with the proposed CfD payment structure approach?**

Yes the CfD payment structure approach has merits and can drive down costs for the Victorian Government. The ACT reverse auction process is a great example of the benefits of the CfD approach.

(b) **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)?**

To accurately reflect the value of the generated electricity, half hourly prices should be used for the CfD payments.

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

In consideration that the Victorian energy market has significantly better interconnection with neighbouring states than any other region in the NEM, it is unlikely to experience negative pricing events, as such a floor price of zero is not considered an overburden for the project, however if a floor or cap pricing is used it would affect the pricing for a two-way CfD, refer to response 3.(e) below.

(d) **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?**

Yes, the network’s Marginal Loss Factor (MLF) provides the signal for value of the generated energy for the various parts of the network in any given region in the National Electricity Market.

(e) **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?**

Fixed payments or capacity payments are not practical for wind projects due to intermittency in generation. CfD payment structures are the most effective and will drive down the cost of the contracts.
(f) 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?

Yes, fixed payment approach is not the best mechanism to address current market conditions.

3. Contracting Elements

(a) Are the above contract elements broadly appropriate?

Yes, the contract elements are generally appropriate, however the Victorian Governments needs to ensure that their announced renewable energy target can be reached, therefore a 10 year contract is not going to attract enough projects to achieve this objective.

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

A 10 year contract is clearly not appropriate to support a wide range of projects, hence the current issues with securing Power Purchase Agreements. We believe the minimum term needs to be 20 years to provide revenue certainty for the projects and to improve the project finance conditions for the projects. Victorian Government needs to build confidence for long term investment in the State and this could be achieved by in Government leading the way and providing long term offtake agreements to support large-scale renewable energy projects to be constructed. The longer contract terms will attract lower MWh prices for the contract.

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

It is acknowledged that the Victorian Government needs to ensure the scheme objectives can be achieved and cannot indefinitely wait for an awarded project to start construction, however Large-scale renewable energy projects are typically not without their challenges, and there needs to be a mechanism by which the project can progress through once it has been awarded. A 6 month delay to commence construction from the committed timeline can be considered for a threshold. Another mechanism to ensure higher likelihood for commencement and completion of
projects is to filter less advance projects during the evaluation process, refer to response 5.(f) below.

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

The cash flow of the project is very important especially in the initial years, we support a monthly payment schedule.

(e) What are the implications of a two-way CfD?

A two-way CfD is reasonable, as long as the project would be securing a minimum 20 year contract with the price that it can be viable, and no floor or cap price is imposed.

(f) 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?

To meet the scheme objectives the Victorian Government needs to ensure generation will be delivered, therefore minimum and maximum volumes are acceptable for a 12 month period.

(g) Are there any other contract elements that should be considered?

The large-scale renewable energy projects typically take 15-24 months to complete their construction, therefore the start of the contract timeframe should be on commencement of generation on the network, not on the execution of the contract.

(h) Are any of the elements likely to lead to perverse outcomes?

The discussion during the workshop showed that for the existing proposed Pre-2020 contract structure the projects will need to secure a Power Purchase Agreement (PPA) with energy retailers and then Victorian Government will top-up the PPA to the price of the CfD, however this can have a perverse outcome as follow:

i) the scheme will not rectify the current situation in the market since the energy retailers don’t offer a PPA past 2030;

ii) projects that are already committed for construction can take advantage of the Pre-2020 structure and prevent other projects that have not been able to commit to construction to get built;
iii) the proponents can sell the LGCs for less than market price and expect the Victorian Government to top-up the balance.

The above scenarios highlights the disadvantages of having the existing Pre-2020 contract structure, which will prevent the scheme to achieve its objectives.

The entire scheme for pre-2020 and post-2020 should be run as a CfD structure, and for the Pre-2020 volume, the Victorian Government can setup a LGC clearing house with a floor price (in order not to undermine the existing market price), and post-2020 will be as the voluntary surrender of LGC for the Victorian Government.

4. Scheme Administration and Cost Recovery

(a) What are the relative advantages and disadvantages of the different scheme administration and cost recovery options listed above?

There could be more transparency with having Distribution / Transmission entities involved for establishing the required levy mechanism and pass through cost.

(b) Is there another mechanism for recovering scheme costs the Government should consider that would result in better outcomes?

The current proposed levy mechanism that would pass the cost to the end user is appropriate as it ensures the cost is distributed across all grid connected locations evenly.

(c) The Department's proposed position is currently to exempt emission intensive trade exposed companies (as defined under the Federal Government's RET scheme) from paying scheme costs. Do stakeholders agree with this approach? Are there any other parties Government should consider exempting from scheme costs? If so, how should this occur?

By exempting companies it distorts the market pricing, and adds disproportional cost to remaining electricity consumers, the current exemptions in place are for LGCS, this is a levy and should be separate.
5. Auction Evaluation Principles

(a) *What do stakeholders think of the proposed evaluation criteria set out above?*

The proposed criteria is generally reasonable, however as several proponents have already committed their control centre and/or headquarters to Canberra for the ACT auction process, it would disadvantage them and potentially alienate them from the Auction process.

(b) *Do stakeholders have views on how evaluation criteria might be weighted?*

Auction Scheme are generally price driven, as such we believe a minimum 50% weight should be allocated to the Per MWh price (or the bundled output price), followed by 20% for project readiness (Risk to Completion), 20% for Local / Regional Investment, and 10% for Community Engagement.

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

The current proposed evaluation criteria is reasonably comprehensive, any further requirement will potentially result in higher prices which is not desirable for the Scheme objectives.

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

All tenders have an inherent cost for the bidders, however the more detail and commitments the project required upfront, the more prohibitive the tender process becomes. In addition if the timeframe for the award of the contracts are too long, it will require the bidders to continuously go and validate their prices from their suppliers.

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

Minimum project size of 30MW, with no maximum size for bids, as it would provide more competitive pricing, and it would allow VIC Government to deliver its target of 1,500MW pre-2020 and 3,900MW between 2020 and 2025.
(f) **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?**

Yes, an expressions of interest evaluation round would be of benefit to filter out less advance projects and to ensure only realistic tender bids are provided for the full evaluation process, this would also reduce evaluation cost for the Victorian Government.

If Department of Environment, Land, Water and Planning requires further clarification on any of our responses above, we can provide further details accordingly.

Yours Sincerely,

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Union Fenosa Wind Australia