



VICTORIAN
DIVISION

31 August 2016

Department of Environment, Land, Water and Planning
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Victorian Renewable Energy Auction Scheme Consultation Paper

The Minerals Council of Australia Victoria Division (MCA) welcomes the opportunity to provide comment on the design of Victoria's proposed Renewable Energy Auction Scheme (the scheme). We also appreciated the opportunity to attend the workshop for industry associations and peak bodies (the workshop) on 24 August.

This submission considers the scheme and its design in the context of four key energy policy objectives: an efficient secure system, reliable safe energy supply, affordability and emissions intensity. Victoria's high living standards and economic prosperity are underpinned by these objectives.

Any Victorian policy decision must also be considered in the context of the National Electricity Market (NEM), which has ensured energy security to much of Australia since its formation. Victoria's coal-fired power plants are the lynchpin of the NEM, even more critical now as to offset increases in supply from intermittent generation technologies (IGT) in other states. The recent upgrade of the Heywood Connector between Victoria and South Australia illustrates this interdependency.

The MCA's position is that a full cost-benefit analysis of the scheme (as well as the Victorian Government's broader RET) must be undertaken. Victorians must be able to make an informed decision about whether potential benefits outweigh costs before any policy is implemented.

The security and reliability of Victoria's energy system

Two key objectives of Victoria's energy policy are an efficient and secure system to provide for the 'state's economic and social wellbeing as cost-effectively as possible' and that 'supplies are delivered reliably and safely'.¹

The auction scheme, and Victoria's RET, must not undermine these long-standing objectives.

However the Victorian Government reinforced at the workshop that the scheme is being designed primarily as a means of subsidising short-term growth in the renewable energy sector. Many times over it was stated that projects would be assessed largely on their ability to achieve this goal.

Pursuit of short-term growth of selected technologies above all other policy principles raises questions about the long-term efficiency, security and reliability of energy supply in Victoria.

Further, it is not clear what the targets for the scheme (aside from contributing to the RET) will be or what cost this will add to electricity users. Factors yet to be considered or still under early investigation include:

- How forecast energy demand was factored into determining the overall renewable energy targets and whether forecast demand would be used to determine auction tranches

¹ State of Victoria, *Energy: Key Objectives*, Department of Economic Development, Jobs, Transport and Resources, Victoria, Australia, 2015, <http://www.energyandresources.vic.gov.au/energy/about/policy-and-strategy/key-objectives>.

- How projects will be prioritised to minimise congestion on the grid
- Whether the scheme was available to out-of-state projects delivering power to Victorian consumers
- The likely impact on baseload power security and availability.

The scheme is modelled on an approach taken by the Australian Capital Territory's (ACT) to increase IGT. Yet it is unclear whether such this scale of IGT is suitable for state such as Victoria.

The ACT required just 400MW of ICT to supply 50 per cent of its electricity requirements.² Victoria, with its much larger and growing population and large industrial sectors, is expected to need to build a further 5400MW to achieve its ambitious target of 40 per cent renewable energy generation by 2025 – more than 13 times the capacity required in ACT.³

Victoria also supplies approximately 24 per cent of the NEM. The ACT does not make such a contribution.

Protecting the integrity of the energy system and broader NEM requires these issues to be fully considered prior to scheme progression.

Energy affordability – Victorian households and business must know the cost

Ensuring energy affordability is another feature of sound energy policy. How the scheme would be paid for – through general revenue or passed on to consumers – was also the first question at the workshop.

Households and businesses have yet to be told how much the scheme will cost them. The best indication is that they will pay for a significant portion – if not all – of the approximately \$2.5 billion in IGT investment forecast as a result of the RET.⁴ The Victorian Government has confirmed modelling on the likely cost of the scheme to electricity consumers is not yet complete.⁵

Only grid integration costs appear to have been considered; balancing and profile costs associated with IGT are not factored into the evaluation principles. Consumers must be fully aware of these costs, particularly those associated with maintaining additional capacity for times when IGT is unavailable.⁶

In addition to funding development of IGT, consumers will be subject to increasing price volatility as its share in the system increases. Victorian consumers are currently largely insulated from price volatility due to availability of low-cost, reliable base load power from the Latrobe Valley.

Not all consumers can absorb these costs. Trade exposed industries such as mining, agriculture and manufacturing, will face costs that their competitors do not, undermining their competitiveness.

A full cost-benefit analysis must be undertaken prior to progressing the scheme (and broader RET) to ensure electricity users can decide whether the benefits outweigh the impact. The cost-benefit analysis should extend to impacts on industry and employment due to higher energy prices.

A truly technology-neutral approach can reduce emissions and protect jobs and investment

The minerals industry agrees that sustained global action is required to climate change and considers Australia's 2030 emissions target of a 26 – 28 per cent reduction off 2005 levels credible and appropriate.

Secondary state-based targets lead to uncertainty, inefficiency and duplication - driving up costs for energy users without environmental gain.⁷ Energy-intensive industries, such as mining, manufacturing and agriculture bear the brunt of this impact. Competing internationally depends on access to affordable, reliable energy supplies.

² ACT Government, Energy, Environment and Planning Directorate – Environment, 8 August 2016, <http://www.environment.act.gov.au/energy>

³ Premier of Victoria, *Renewable Energy Targets to Create Thousands of Jobs*, Victoria, Australia, 15 June 2016, <http://www.premier.vic.gov.au/renewable-energy-targets-to-create-thousands-of-jobs/>.

⁴ Ibid.

⁵ A presenter suggested early indications were \$30 per household per year.

⁶ Fisher, B. S & Schnittger, S, *Implications of Australian Renewable Energy Mandates for the Electricity Sector*, BAE Economics, Australia, August 2016, p.6

⁷ Ibid, p.iii.

Achieving Australia's emissions reduction target and protecting jobs and investment requires all energy generation options. Low emissions coal technologies, including high efficiency, low emissions (HELE) and carbon capture and storage (CCS), are critical parts of this mix.

The consultation paper states that '[d]iversification of Victoria's renewable energy portfolio would also help security of supply from the emerging generation mix in the wholesale market.' This should apply across the entire energy system, not just the IGT sector.

The minerals industry calls on the Victorian Government to adopt a technology-neutral approach to the state's energy system. This will include IGT but acknowledge that low emissions coal-fired power generation is required to provide households, businesses and industrial users with reliable, affordable electricity.

Undertaking a detailed cost-benefit analysis that considers costs to electricity users as well as potential impacts on industry and employment provides the right foundation for this.

More information

The MCA looks forward to continuing to participate in consultation regarding Victoria's energy system, including actions to ensure reliable, affordable electricity for all users.

Please do not hesitate to contact me for more information.

Kind regards

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