

31 August 2016

Department of Environment, Land, Water and Planning
PO Box 500
Melbourne VIC 8002

By email: Renewable.Energy@delwp.vic.gov.au

Dear Sir/Madam

Submission to the Victorian Renewable Energy Auction Scheme Consultation Paper

Vestas Australian Wind Technology Pty Ltd (“**Vestas**”) has supplied around half of all the wind turbines installed in Australia.

Our parent company in Denmark is the world's largest supplier of wind turbines, and has installed more than 55,000 wind turbines in 75 countries around the world.

Vestas welcomes the opportunity to make a submission to the Victorian Government’s Renewable Energy Auction Scheme Consultation Paper (the “**Consultation Paper**”).

Vestas is a long-term global investor in this industry and we can see a solid pipeline of clean energy projects that will result in significant reductions in carbon pollution as well as more jobs in regional Victoria.

We are excited about the potential for renewable energy in Victoria and the long-term goal of building a thriving renewable energy industry in a state that has been reliant on fossil fuels for many decades. It is a significant shift but it is an inevitable one, and the introduction of state targets for renewable energy and an auction process that underpins the achievement of such targets will help that transition while also attracting significant new investment and creating local jobs.

Vestas is supportive of the Government’s objectives set out on page 2 of the consultation paper, and notes the focus on attracting new investment and jobs.

Our comments below do not address all of the areas in which the state of Victoria has sought industry feedback upon, but Vestas is also a member of the Clean Energy Council (“**CEC**”) and we strongly endorse the CEC’s more extensive submission to this process.

Scheme structure

To the extent possible (and subject to our comments in the “contracting elements” section below), Victoria should seek to replicate the renewable energy auction model that has been successfully implemented by the Australian Capital Territory (“**ACT**”) government in terms of the scheme structure, commercial framework and documentation for the auction process.

The benefits of replicating the ACT model are principally:

- Participants in the market are familiar with the model.
- The key commercial terms have been considered and incorporated into documents that have been banked.

- This familiarity saves on transaction time and transaction costs.
- Lowering transaction costs is critically important, particularly for smaller projects.

One notable aspect of the ACT model we would suggest Victoria rejects is the hard 200 MW cap on each of the auction, which unfortunately caused some difficulty for proponents in terms of submitting a competitive bid within that cap without sacrificing the economies of scale that can be secured by developing larger projects.

Vestas would certainly urge Victoria to provide clarity on the way in which Large-scale Generation Certificates (“LGCs”) will be treated by the state, so as to provide transparency to other participants in the LGC market. The proposal for Victoria to retain and perhaps resell LGCs up until 2020 is reasonable but for any generation beyond 2020 it is best to make it very clear Victoria will not trade or surrender LGCs, so that the Victorian scheme becomes additional to the Renewable Energy Target (“RET”).

That said, it would be far preferable if Victoria simply focused on the design of the auctions up to 2020 and deferred consideration of the detail of what happens beyond 2020 to some other time.

Payment structure

Vestas supports the Contract for Difference structure used in the ACT auctions, but we do not hold a firm view on how to set the reference price. However, we consider that a floor price (as proposed in the Consultation Paper) is a good idea.

Contracting elements

Vestas’ earlier comments regarding the replication of the ACT model apply here, but are subject to the following suggestions.

The terms of the Power Purchase Agreement (“PPA”) or equivalent offtake agreement (called “Deed of Entitlement” in the ACT), should **not** give the State (as offtaker) any broad discretion to terminate the PPA other than for clear and sufficiently material breaches (and subject to failure to cure within a reasonable period).

The State commonly has broad discretions to terminate, for example, funding agreements or other discretionary type contracts but these create difficulties in a project financed renewable energy project.

The contract needs to have commercial terms that provide sufficient certainty to all participants (developers, lenders, contractors) that the revenue stream cannot be easily taken away. For example, there should not be unreasonable:

- “No later than” commencement dates
- “No later than” completion dates

Rightly or wrongly, the private sector and the banking community holds some concern over recent actions by governments and statements by opposition parties in Australia to compromise the legal status of signed contracts between state and territory government agencies and private sector providers of infrastructure. That element of risk has a cost, and that cost is priced in to the overall contract sum.

Scheme administration and cost recovery

Vestas does not have a view regarding the various scheme administration and cost recovery options outlined in the Consultation Paper.

We support the exemption of large electricity users that are in a trade-exposed sector of the economy (using the definitions and classifications contained in recent federal legislation).

Auction evaluation principles

Vestas does not have any additional suggestions regarding the evaluation principles. The criteria proposed in the Consultation Paper are sensible and they reflect the objectives of the auction scheme.

Vestas does not have a particular view about the relative weighting of the criteria but we would point to the recent lived experience of the ACT scheme yet again as a model to follow.

Next steps

Vestas would be pleased to meet to discuss our submission and answer any other questions.

Yours sincerely



Mr. Danny Nielsen
Managing Director
Vestas Australian Wind Technology Pty Ltd