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Department of Environment, Land, Water and Planning
PO Box 500
Melbourne VIC 8002
By email: Renewable.Energy@delwp.vic.gov.au

Re: Submission to the Victorian Government Renewable Energy Auction consultation

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Infigen Energy appreciates the opportunity to make a submission with regards to the Victorian Government's Renewable Energy Auction consultation process.

Infigen Energy (ASX: IFN) is an Australian Securities Exchange listed specialist renewable energy business headquartered in Sydney. Infigen Energy is the largest owner and operator of wind energy facilities in Australia (557 MW) with six major wind farms in Australia capable of producing approximately 1,500 GWh per annum, or enough energy to supply over 200,000 homes annually. Infigen also has a significant pipeline of Australian solar photovoltaic and wind development opportunities.

This submissions follows the outline of, and answers the questions in the consultation paper.

Scheme structure

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?

To the greatest extent possibly the Government should be definitive about

- the volume of renewable energy it requires (MW or GWh);
- the type of renewable energy it desires;
- the timeframe within which those projects are required to be operating; and
- any geographical restrictions it might apply to selection criteria.

Furthermore the Government should liaise with the industry and seek to address the inefficiencies in the planning approval process, both original planning application and approvals for modifications to existing approvals.

To ensure the industry is ready to meet this demand the Government should proceed as quickly as possible to deliver the necessary legislative and regulatory changes.

The Government's focus should be on setting the 2020 targets and framework thereby allowing it the flexibility to learn from its experiences and allowing it to refine the framework for the 2025 targets

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

Ideally a schedule of future auction dates would be made available so that developers can adequately resource for and respond to the opportunities.

Absent a schedule of future auctions, a 3 to 6 month lead time would be sufficient.

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

The Victorian government should have an open dialogue with the industry and be mindful of the near term development opportunities available and those earlier in the development process. Currently there are sufficient projects in the development pipeline to meet the pre-2020 target. Based on the targets and timetable announced by the government the first auction should be sized to meet a large proportion of the 2020 target. This will increase the probability that sufficient capacity is online by 2020 and at the lowest cost as projects will be able to create more LGCs.

At what frequency should auctions be held?

This depends on how successful prior auctions are. Auctions should be as frequent as required to deliver the target and no more frequent than every 3 months.

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

Infigen has no preference. To deliver the most competitively priced renewable energy there should be no technology banding.

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

This should be assessed closer to 2020.

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

No comment.

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?

Infigen's understanding from the consultation process is that pre-2020 the Victorian Government is only trying to attract investment to the state. If the Victorian government does not require the LGCs it should allow the developer to retain and sell them. Project finance providers place a high value on confidence in the quantum of project cash flows.

High confidence in the aggregate prices a project will receive and lowers risks of those prices not being received, for any market or regulatory reasons, will maximise the ability of proponents to secure project finance and achieve the Government's renewable energy objectives at the lowest cost to Victoria.

The contract for difference payment should be the strike price less the spot price of LGCs (monthly average referenced to a reliable market reference, e.g. an agreed panel of LGC brokers) less the daily average price of electricity in Victoria.

Post 2020 the Victorian Government is looking to encourage renewable energy over and above the LRET. An easy way to achieve this and retain the flexibility to continue to participate in an increased LRET is to not register post 2020 projects with the Clean Energy Regulator (i.e. the projects would not create LGCs) unless the LRET is increased.

The CfD payment would likely be higher post 2020 unless renewable energy costs come down significantly and/or wholesale electricity prices increase.

Payment structure

Do stakeholders agree with the proposed CfD payment structure approach?

Infigen agrees with the CfD payment structure but believes the CfD payment should be the strike price less the spot price of LGCs less the daily time weighted average price of electricity in Victoria. Including LGCs simplifies the contract structure and does not require the Victorian government to become a participant in the LGC market. Using a daily average price better reflects the relative value of the energy being produced. Monthly average prices can be significantly affected by extreme price day(s) and therefore have the potential to unfairly penalise a project's expected cash flows.

Infigen agrees that payments should be made to the generator on a monthly basis, or no less frequently than quarterly. This frequency will be important for generators from a project finance perspective, e.g. compliance with debt facility calculation ratios and covenants. In particular, the terms of the CfD payment arrangements will need to ensure that the generator will be entitled to accrue for scheme revenue attributable to each quarter, notwithstanding that scheme revenue payments for the quarter will be received in arrears.

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)?

A daily time weighted average price should be the reference price as this will assist with delivering projects that meet the needs of the market and lower the potential cost to the Victorian Government. If the CfD payment was referenced to the 30 minute price then the lowest cost of energy projects will likely win even if they are producing energy at times when the market has sufficient low cost energy. A higher cost project might deliver energy to the market during peak periods and therefore be more valuable.

For example, if project A costs $80/MWh and generates mostly at night (low DWA price) and project B costs $83/MWh and generates more frequently during the day, in an auction where the CfD payment was based off a 30 minute reference time, project A should always win the auction based on its ability to bid its lower cost of energy. However, if the CfD payment was referenced to a daily time weighted price and project B's dispatch weighed average price versus time weighted average is more than $3/MWh higher than project A's then project B could be successful by bidding less than project A in the auction process and still exceed its cost of energy as illustrated below.

The Victorian government should be seeking to minimise its CfD payment. Referencing a time weighted average price will allow the Victorian Government to achieve this outcome while evaluating projects based on their bid prices.

		Project A	Project B
	Cost of energy	80	83
A	Bid strike price	90	86
B	LGC reference price	40	40
C	VIC TWA reference price	40	40
D	Project DWA price (30 min price)	30	37
E	CFD payment (A-B-C)	10	6
	Cashflow to project (B+D+E)	80	83

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

This would not be necessary if a daily time weighted average reference price was used.

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?

If all other factors were equal across projects, then applying MLF / DLF factors should have the effect of stimulating / supporting projects that have the most favourable MLF / DLF characteristics, at the time of bidding. But moreover, all other things won't be equal.

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?

Infigen agrees that the Contract for Difference approach is a better payment mechanism for achieving Victoria's renewable energy objectives at the lowest cost.

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?

The suggested alternative structure where the proponent receives a fixed payment from the scheme administrator in addition to achieving (variable) market prices for the electricity and LGCs is not likely to overcome the barriers faced by proponents in securing project finance. This is because the majority of the generator's cash flows would be subject to market price risks, which is a significant barrier to achieving efficient project finance.

Contracting elements

Are the above contract elements broadly appropriate?

Yes.

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

20 years is preferable. Longer contracts will enable proponents to confidently assume project finance debt will be obtainable for more years of the asset life. This will result in lower tariff prices and drive a lower cost of the scheme.

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

At least 6 months or a requirement to pay liquidated damages equivalent to the amount that would be payable under the CFD for up to six months.

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

The project proponent will receive most of its cash flows from the market so either settlement period would be fine.

As noted above, if payments are made quarterly then the terms of the CfD payment arrangements will need to ensure that the generator will be entitled to accrue for scheme revenue attributable to each quarter. This will be important for generators from the perspective of compliance with debt facility calculation ratios and covenants.

What are the implications of a two-way CfD?

A CfD is typically two way. At current LGC and electricity prices the Victorian Government would likely receive payments from successful project proponents. In the event that there is a disruption to LGC prices in later years the Victorian Government could use these receipts to fund any potential future CfD payments. It could also use these receipts to fund payment to generators under the 2025 target auctions.

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?

The CfD will be for the volume produced therefore there is no need to have minimum and maximum volumes.

Are there any other contract elements that should be considered?

No comment

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

The contract period should commence on commercial operation date as opposed to when the contract is awarded. It is unclear the rationale for the desired approach.

<u>Scheme administration</u>

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

Placing the cost recovery obligation on the distribution businesses makes the most sense and strikes a balance between the number of parties involved and

the number of layers through which costs are passed. To the extent that the Victorian Government is a net recipient of CfD payments it could create a fund from which future payment under the CfD could be made before cost recovery is necessary.

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

No comment

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?

The Victorian Government should consider to what extent those companies benefit (by supplying products for example) from the Victorian government encouraging renewable energy investment in the state when considering this position.

Evaluation criteria

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

As discussed earlier the choice of the electricity reference price for the CfD payment is important in determining value for money for the Victorian Government. It should look to minimise the CfD payment as opposed to seeking the lowest cost of energy projects. Using a time weighted average daily price will allow the Victorian Government to minimise its CfD payment by selecting the project with the lowest bid price.

To the extent that the Government has regional or location preferences for projects, this should be advised up front to avoid preparation by proponents and assessment by the Department of undesirable proposals. As such this should not be included in the criteria.

At the industry consultation session the Department indicated that it would be open to projects outside of Victoria being eligible to participate in the auctions subject to significant economic benefits accruing to Victoria. It would be useful to outline some metric that might assist project proponents with evaluating how these benefits might be weighed against the value for money criterion, e.g. sourcing turbine towers from a Victorian supplier is equivalent to $X/MWh on the price criterion.

The Government will only make a CfD payment for electricity delivered so including capacity factor as an evaluation criterion should be irrelevant.

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

The highest weighting should be given to value for money, with a secondary weighting for economic development. It would be helpful if the Department could outline the methodology it will use in evaluating the economic development criterion or identifying the elements of economic development it values more highly.

Community engagement should be assessed as either effective or not but not weighted in the evaluation criteria. Only projects with effective community engagement plans should qualify.

Are there other evaluation criteria/principles that the Government should consider to ensure the scheme meets its objectives?
Certainty of delivery could be an evaluation criteria.

Certain delivery bids involve significant costs for proponents and key project stakeholders, suppliers etc. These costs are deadweight expenses and it would be desirable to strike a better balance between the costs proponents need to incur to present certainty of delivery versus the deadweight costs for proponents who do not succeed in the specific auction.

This can be somewhat resolved by the Victorian Government setting reasonable minimum project development thresholds for all complying bids, e.g. projects must have planning approval. Alternatively, running larger auctions where there will be multiple successful proponents will reduce the overall deadweight costs.

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

No, but where possible the Department should make it clear how precisely the evaluation criteria will be measured, e.g. under what circumstances could a more expensive project be successful in the auction ahead of a less successful one and at what price differential can be made up in other criteria.

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

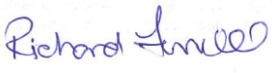
The Department should only set minimum project sizes for its own practical purposes, e.g. evaluation, contract negotiation and execution, ongoing administrative burden.

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?

If the Government is clear about the criteria for entering a project into the auction process then this stage will be unnecessary. The best approach would be to clearly define the stage at which projects are eligible to enter.

Thank you for the opportunity to participate in the consultation process. Please feel free to contact me directly in relation to Infigen's submission.

Yours sincerely,



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