

# Senvion Australia submission: Victorian Renewable Energy Auction Scheme

## Introduction

Senvion Australia has delivered approximately 10% of the Australian wind energy market with a total of 440 megawatts of wind capacity installed across 9 wind farms in Victoria and New South Wales.

The majority of our work has been in Victoria, and we have delivered over 30% of the State's 1,249 megawatts of operating wind farms.

Senvion's Australian team, based in Melbourne, is also responsible for the Senvion Group's presence in the Asia Pacific region, including Japan and New Zealand.

We welcome the Victorian Government's strong commitment to renewable energy and are pleased to provide input into the development of the Renewable Energy Auction Scheme.

## Key points

- The Victorian Government's ambitious renewable energy targets are challenging – but achievable with the right policies in place.
- The bulk of the large-scale wind and solar required to meet the 2020 target will need to be included in the 2017 auctions.
- In parallel to developing the auction scheme, the Government has a key role to play in addressing barriers to new renewables including:
  - expediting amendments to existing planning permits to allow for the appropriate use of current technologies;
  - strategic investment in network infrastructure to unlock areas of high renewable energy generating potential;
  - facilitating the orderly exit of existing coal generators to open up the market for additional generating capacity from clean energy sources
- As a general principle, the Victorian scheme should complement the current and any future federal Renewable Energy Target.
- It is important that the Government undertakes modelling to help understand how energy retailers might behave in light of the scheme, the impacts of the scheme on energy and LGC prices, and the potential impact of the scheme on investment in projects outside of Victoria.
- The Government should be clear in advance about how it intends to treat LGCs associated with the auction.
- Longer contracts will result in lower financing costs due to the increased certainty for investors.
- It is critical that the auction evaluation criteria and weighting are clearly defined and communicated.
  - We broadly support the evaluation principles, particularly those that encourage investment in local economic development.
  - In addition, a focus on developing skills in Victoria will ensure that the State is well positioned to deliver clean energy projects, and may also provide a pathway for those affected by the closure of existing coal powered generators.
  - We don't support the specific focus on projects having a high capacity factor. The "value for money" evaluation principle should effectively cover this.

## Detailed submission

### Scheme structure

#### Achieving the target

Making the transition to a clean energy economy requires strong leadership from our political leaders. The Victorian Government is leading the charge, and has set very ambitious targets for investment in new renewable energy projects to 2025. While the Government's ambitions are challenging, the targets can be achieved with the right policies in place.

Based on our experience of delivering wind farms, in order for projects to start generating to meet the Government's 2020 renewable energy target, wind turbine companies must receive an official "notice-to-proceed" by 2018.

Practically, this means that the bulk of the large-scale wind and solar required to meet the 2020 target will need to be covered in the 2017 auctions.

While the auction scheme will incentivise investment in new renewable energy projects, there are still a number of barriers that need to be overcome in parallel.

#### *Planning*

There are 19 wind farm proposals that have received planning approvals in Victoria. Many of these projects have been designed to use 2-megawatt turbines. The next generation of turbines to be installed in Australia are the larger 3-megawatt turbines – which will deliver greater output for lower costs.

In order to meet the Government's renewable energy targets, amendments to existing planning permits to allow for the appropriate use of current technologies should be expedited.

#### *Access to an adequate electricity network*

There are significant renewable energy resources in remote areas that cannot be developed due to the high cost of connecting to the current electricity network either because of the distance to the grid, or because of the existing capacity of the grid to accept additional supply.

In its most recent Victorian Annual Planning Report (VAPR)<sup>1</sup>, AEMO states that the key driver for potential network augmentation is evolving to now focus on enabling higher levels of concentrated generation in areas of low network capability.

Specifically, Matt Zema, former CEO of AEMO said:

*"In an environment where the energy industry is transforming to include higher levels of renewable generation, major network augmentations to increase capacity might in fact be cost effective for consumers, as development would enable renewable generation to be connected to the grid and efficiently transported to demand centres."*

At Senvion Australia we have undertaken network congestion studies relating to various wind farm project opportunities. We have found that in parts of Victoria, such as in the North-West, electricity grid constraints will significantly limit the amount of renewable energy supply that can be connected.

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<sup>1</sup> <http://www.aemo.com.au/Electricity/Planning/Victorian-Annual-Planning-Report>

Strategic investment in network infrastructure to unlock areas of high renewable energy generating potential will support achievement of the Government's renewable energy targets.

#### *Managing the exit of greenhouse intensive generation assets*

Victoria is home to some of the oldest and most greenhouse intensive fossil fuel generators in the world. The global imperative to reduce greenhouse gas emissions, and increasing community concerns about the health impacts of coal-fired power have created a strong rationale to facilitate the closure of existing brown coal generators in Victoria.

Research by AGL<sup>2</sup> identified a number of barriers to exit for incumbent generators. The AGL research concluded that:

*"closure of existing plant seems to be a crucially important step for overcoming the intractability of new renewable investment."*

In a report for the AEMC, Frontier Economics<sup>3</sup> concluded that:

*"In general coal-fired generators face higher direct cost barriers to partial and complete exit than OCGT and CCGT plant."*

While the closure of existing coal-fired power plants is inevitable as they reach the end of their operating life, in the absence of effective policies the timing is unpredictable. This unpredictability is not good for local communities and does not give investors clarity about the future opportunities for renewable energy.

We believe that the Government has an important role to play to facilitate the orderly exit of existing coal generators to open up the market for additional generating capacity from clean energy sources.

#### Complementing the Renewable Energy Target

As a general principle, the Victorian scheme should complement the existing and any future federal Renewable Energy Target. Investors have been buffeted by considerable policy uncertainty. A clear commitment to supporting achievement of any federal RET will help maintain investor confidence in clean energy in Australia if the RET is increased.

#### Impact of the scheme on the electricity and LGC markets

It is difficult to predict how the electricity and LGC markets will be affected by the scheme.

For example: How will the scheme impact how energy retailers approach power purchase negotiations? What will be the impact on the financial viability of projects outside of Victoria?

It is important that the Government undertakes modelling to help understand how energy retailers might behave in light of the scheme, the impacts of the scheme on energy and LGC prices, and the impact of the scheme on investment in projects outside of Victoria should be understood.

As a general principle, the Government should be clear in advance about how it intends to treat LGCs associated with the auction. Where appropriate the Government should also put in place mechanisms to ensure that whatever approach is decided upon cannot be easily changed in the future.

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<sup>2</sup><http://aglblog.com.au/wp-content/uploads/2014/08/No-43-energy-only-and-renewable-targets-FINAL.pdf>

<sup>3</sup><http://www.aemc.gov.au/getattachment/29c5992e-6fb9-49b2-af44-d5d3c680c499/Frontier-report-to-AEMC.aspx>

## **Contracting elements**

### Contract duration

Longer contracts will result in lower financing costs due to the increased certainty for investors.

## **Auction evaluation principles**

We broadly support the evaluation principles, particularly those that encourage investment in local economic development.

In addition, a focus on developing skills in Victoria will ensure that the State is well positioned to deliver clean energy projects, and may also provide a pathway for those affected by the closure of existing coal powered generators.

We don't support the specific focus on projects having a high capacity factor. The "value for money" evaluation principle should effectively cover this.

It is critical that the auction evaluation criteria and weighting are clearly defined and communicated.

### Managing risks

There are well documented risks associated with renewable energy auctions which can be partly managed through effective selection processes, and contractual requirements.

For example, there is a risk that renewable energy developers will underestimate the actual costs of delivering a project. This can be managed by limiting participation in the auction to bidders that have the demonstrated capacity to implement projects at the contracted price.

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