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WIND AUSTRALIA

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14 September 2012

Climate Change Authority
By email: submissions@climatechangeauthority.gov.au

Dear Sir,

Climate Change Authority review of the Mandatory Renewable Energy Target

Union Fenosa Wind Australia would like to take the opportunity to respond to the Climate Change Authority's invitation for submissions regarding the RET review.

Union Fenosa Wind Australia is the Australian subsidiary of Spain's Gas Natural Fenosa SA, and we are committed to an investment of $2.4 billion to help Australia achieve its ambitions to reduce carbon pollution, harness distributed sources of renewable energy, and develop new energy industries in rural and regional Australia.

We propose to develop, construct and operate wind farms with a total output of 1200MW across 8 project proposals in New South Wales and Victoria. We have a project pipeline of 3 approved-for-construction projects, 2 projects that are pending approvals, and three projects that are being investigated and/or prepared for preliminary planning assessment.

Our parent company is the leading vertically-integrated gas and electricity company in Spain and Latin America (GNF's global business serves 20 million customers and operates 15.4GW of installed capacity), and it owns and operates wind farm projects across the world. Union Fenosa Wind Australia entered the Australian market in 2008, drawing upon GNF's experience in developing over 1000MW of wind farms, and with confidence in the Australian government's bipartisan support for the RET.

Union Fenosa Wind Australia's developments in Australia will deliver greater investment in the wind energy sector, skilled jobs, the abatement of carbon pollution and enhanced energy security, but our prospects for success in the Australian market would be severely undermined if fundamental changes were made to the RET or to the legislative and economic mechanisms underpinning the RET.

If the RET was amended – presuming that the Parliament desired to amend the target on the recommendation of the Climate Change Authority – then the detrimental effect on our investor confidence and investment decision-making would be considerable. Furthermore, we question the benefit of any change to the RET, given studies (commissioned by the Clean Energy Council) that highlight the minimal cost of the RET to householders. Bloomberg New Energy Finance has also assessed proposals to lower the LRET in an August 2012 research note, finding that marginal savings benefits would be gained at the expense of greatly-diminished investment in Australia and great damage to investor confidence in Australia.

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Our investments are assessed against 15 year and 30 year timeframes, and policy stability is of overriding importance to confident investment decision-making. We need a clear and certain RET target to enable us to model our investment decision-making, and the RET – in its existing form, based a fixed target – delivers that clarity and certainty. We encourage the Climate Change Authority to leave the RET target unchanged, and thereby affirm Australia's commitment to clear and certain policy-making settings that will drive investment in Australia's significant renewable energy resources.

Yours sincerely,

Domingo Asuero
Managing Director

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Union Fenosa Wind Australia: Comments on Climate Change Authority RET Review

Are the existing 41,000GWh LRET 2020 target and the interim annual targets appropriate?
Union Fenosa Wind Australia (UFWA) believes the 41TWh LRET target is appropriate and achievable, and that the current development trajectory using existing technologies will enable Australia to unlock considerable renewable energy resources.

What are the implications of changing the target in terms of economic efficiency, environmental effectiveness and equity?
UFWA believes that significant changes to the annual targets, particularly any reduction of the annual targets, will damage investor certainty and undermine investment in large scale projects. Our industry has already suffered significant uncertainty in recent years because annual targets were dramatically affected by a massive oversupply of RECs caused by up-front deeming/generous multipliers applied to rooftop PV.

Is the target trajectory driving sufficient investment in renewable energy capacity to meet the 2020 target? How much capacity is needed to meet the target? How much is currently committed?
The 2020 target to achieve 41 TWh is significant, and should encourage billions of dollars in renewable generation project investment, but the existing overhang of surplus RECs in the REC market means that there is little demand for deployment of projects until 2015-16. This could potentially lead to the accelerated build of multiple major projects in a short timeframe and potential constraining factors (utilisation of heavy-lift cranes, construction firms, transport and logistics) could pose real challenges that undermine the achievement of the 2020 target.

If wind power is to comprise the majority of the 2020 target then as much as 10 GW of wind farms need to be developed in that post-2015 timeframe. This is a considerable challenge, given that less than 1 GW has been installed in the last year.

Has the LRET driven investment in skills that will assist Australia in the future?
The LRET has driven investment in employee skills in design and development of renewable energy projects, but there are further opportunities for Australians to develop workplace skills that contribute to the construction of renewable energy projects.

In the context of other climate and renewable policies, is there a case for the target to continue to rise after 2020?
It is uncertain whether additional renewable generation in large scale projects will commence after 2020, due to the political perception that the carbon price will be low or non-existent at that time.

The base price for electricity may yet increase due to rising fuel prices for 'dirty' conventional generators (gas prices may rise to parity with global pricing, and foreign demand for coal may increase domestic coal prices), and this would enhance the competitiveness of renewable energy projects. However, absent a carbon price that penalises the implicit costs of carbon pollution, the potential for

fuel price increases upon our 'dirty' competitors is not a sufficient driver for additional wind farm investment above the 2020 target.

Should the target be a fixed gigawatt hour target, for the reasons outlined by the Tambling Review, with the percentage being an outcome?
The target should continue to be a fixed annual amount in order to provide investors with certainty.

What are the costs and benefits of increasing, or not increasing, the LRET target for Clean Energy Finance Corporation-funded activities? What are the implications in terms of economic efficiency, environmental effectiveness and equity?
UFWA supports the position described by the Clean Energy Council at page 11 of the CEC's submission to the CCA.

Is the calculation of individual liability using the RPP the most appropriate methodology? Is it appropriate to set the RPP by 31 March of the compliance year?
The use of an annual RPP which is calculated on 31 March in each compliance year is an appropriate methodology. The error in estimating total energy consumption in the Australian electricity networks three months into a compliance year is significantly less than estimating annual electricity consumption with an eye to ten or twenty years into the future. Many liable entities (particularly retailers) have little certainty about their energy load beyond three years into the future, and there is limited REC pricing beyond three years into the future.

Is the shortfall charge set at an appropriate level to ensure the 2020 target is met?
The shortfall charge is $65 (equivalent to $92.85 post tax with a company tax rate of 30%), which is adequate given increasing targets to 2020 and expected increases in conventional 'black' electricity pricing.

Is a list approach to 'eligible renewable sources' appropriate? Are there additional renewable sources which should be eligible under the REE Act?
The list approach to 'eligible renewable sources' is appropriate as it is comprehensive and consistent with the Intergovernmental Panel on Climate Change 2011 report, Renewable Energy Sources and Climate Change Mitigation. No further technology types need be added to the existing list.

Should waste coal mine gas be included in the RET? Should new capacity of waste coal mine gas be included in the RET?
UFWA suggests that new electricity generation from waste coal mine gas be considered in the context of greenhouse emissions from that activity, and be covered by the carbon pricing mechanism rather than through the RET.

What do you consider to be the costs and benefits of having a separate scheme for small-scale technologies?
UFWA believes that a separate scheme for small scale is appropriate where small scale technologies continue to have multipliers and receive deemed certificates up-front as a cash payment.

Should there continue to be a separate scheme for small-scale technologies?

If small scale technologies are to be re-merged into a unified scheme (of both large scale and small scale) then multipliers should not be applied, to ensure true technology agnosticism. Deeming should only allow the creation of certificates with a specific annual vintage year that cannot be utilised in earlier years (i.e. if a small scale technology is deemed over 15 years from 2012 to 2026 inclusive, then certificates can only be surrendered where the vintage year is less than or equal to the compliance year. For example, in 2016 only certificates from 2012 to 2016 could be utilised, whilst those from 2017 to 2026 could only be banked for future compliance years. This would eliminate the problems that occurred previously when generous multipliers and deeming were applied for small scale technologies.

Is the uncapped nature of the SRES appropriate?
UFWA does not believe that the SRES should be uncapped, rather that the generation of renewable energy or the displacement of electricity or gas consumption through small scale renewables should have a specific target. This specific target, in conjunction with LRET, can be complemented by carbon pricing or other policy measures to achieve Australia's emission reduction goals.

What is the appropriate process for considering and admitting new technology to the SRES?
Consideration should be given to other demand-side reduction technologies, but this needs to be examined within the context of comprehensive smart metering.

Is deeming an appropriate way of providing certificates to SRES participants?
UFWA offers no specific comment on the calculation of the deemed MWh per annum, or the degradation in the anticipated energy production or displacement per year for small scale technologies. However, the up-front nature of deemed certificate creation is of great concern as it creates 'phantom' credits for emissions displacement that are yet to occur and which may never occur.

What are the lessons learned from the use of multipliers in the RET? Is there a role for multipliers in the future?
Multipliers were a well-intentioned social policy measure aimed at accelerating the uptake of small scale technologies, but their implementation was a disaster. They caused a boom and bust scenario for rooftop PV, and severely compromised the deployment of large scale (and lower cost) projects. Multipliers should be removed for all technologies in future.

Should the RET design be changed to promote greater diversity, or do you think that, to the extent that there are barriers to the uptake of other types of renewable energy, these are more cost effectively addressed through other means?
We do not believe that there is a need to promote greater diversity in the sources of renewable energy. We believe that the least-cost displacement of greenhouse gas emissions from stationary energy should be the primary policy goal.

Many existing generators, particularly fossil-fueled generators, have significant implicit subsidies through network connections that were established before there was a competitive energy market. Further examination of this inequity, through the CEFC or other policy means, should be investigated rather than changing the RET design to the detriment of the investment in the existing project pipeline.

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What is the appropriate frequency for reviews of the RET?
What should future reviews focus on?

The current review in every second year is appropriate, but the focus of the reviews should be on the level of renewable generation, compliance, and the cost of the scheme rather than shifting the target and creating uncertainty. The review should also examine whether additional policy measures will be necessary, such as a carbon price or other measures, to continue the growth of renewable generation post 2020.