Submissions
Climate Change Authority
GPO Box 1944
Melbourne
VIC 3001

14th September 2012

Dear Sirs

Response to Renewable Energy Target review Issues Paper

Wind Prospect undertakes all aspects of wind energy development, including design, construction, operation and commercial services, with offices in the UK, Ireland, Canada, Australia and China. With over eighteen years of successful development within the industry, the Wind Prospect Group has been involved in over 3,500MW of approved wind farms, including onshore and offshore projects. It has been involved with development, construction, operations and commercial services and has a further 4,000MW in the early phase of development. The company's civil, electrical and mechanical engineers have been involved in the commissioning of over 100 wind farms around the world.

Wind Prospect's offices in Australia are in Adelaide, Newcastle, Brisbane and Melbourne. Wind Prospect Pty Ltd (WPPL) is the most successful developer in Australia, having achieved planning approval for fourteen wind farms totalling over 1,750 MW, of which 837MW is operating or under construction. Our most recent planning success is in Western Australia with the Dandaragan Wind Farms (Waddi at 193.8MW and Yandin at 319.6MW) located approximately 180km north of Perth.

WPPL's track record is given on the following page, followed by our response to the Issues Paper.

If you have any questions with regards to this submission, please do not hesitate to contact me.

Yours faithfully

Damian Aubrey
Development Portfolio Manager

WIND PROSPECT PTY LTD
PO Box 389 "Beach House", Level 1, 20 Beach Road • Christies Beach • South Australia • 5165 •
Tel: +61 (8) 8384 7755 • Fax: +61 (8) 8384 7722
A.B.N. 22 091 885 924 • Email: info@windprospect.com.au • Internet: www.windprospect.com.au

Wind Farm	State	Turbines	Capacity (MW)	Status
Hallett Wind Farm	SA	45	94.5	Operating
Snowtown (Stage 1)	SA	48	100.8	Operating
Canunda Wind Farm	SA	23	46	Operating
Mount Millar Wind Farm	SA	35	70	Operating
Hallett II (Hallett Hill)	SA	34	71.4	Operating
Hallett III (Mt Bryan)	SA	30	90	Appeal process
Hallett IV (North Brown Hill)	SA	63	132.3	Operating
Hallett V (The Bluff Range)	SA	25	52.5	Operating
Snowtown (Stage 2)	SA	90	270	Under construction
Willogoleche Hill	SA	26	78	Approved, awaiting construction
Willogoleche Hill Expansion	SA	11	33	Appeal process
Troubridge Point	SA	15	30	Approved
Green Point	SA	18	54	Approved
Barn Hill	SA	62	186	Planning Process
Boco Rock	NSW	122	260	Approved, awaiting construction
Bango	NSW		250	Development
Crudine Ridge	NSW	77-106	165	Development
Golspie	NSW		250	Development
Sapphire	NSW		318	Development
Uungula	NSW		800	Development
Willatook	VIC		213	Development
Gnotuk	VIC	40 -69	131	Development
Hexham	VIC		378	Development
Dandaragan (Waddi, Yandin)	WA		514	Approved, awaiting construction
Twin Hills	WA	70 - 90	238	Development
Solar Dawn	QLD		250	Approved, awaiting construction
TOTAL			**5075.5**	

The need for certainty

The majority of large scale projects in Australia will be project financed. Banks and equity investors require secure cash flow in order to underpin such financing. This comes only through a secure long term electricity off-take agreement – a power purchase agreement (PPA). The off-taker, generally an electricity retailer, will already have to consider risks from exposure to fluctuating LGC markets and fluctuating electricity prices. However, these risks can largely be managed.

The one risk which can neither be managed nor absorbed is regulatory risk linked to uncertainty surrounding reviews and potential changes in the way the LGC scheme is implemented. If there is continual uncertainty over the future level of LGC liabilities then long term PPAs will not be achieved. Without long term PPAs, it will not be possible to secure project finance required to fund the renewable generation necessary to meet Australia's targets.

The need for avoid a percentage target

Existing legislation has fixed targets in terms of the gigawatt-hours (GWh) per annum that are required to be met by energy retailers to satisfy their liability under the LGC scheme. These are fixed targets that create the certainly required to enable PPAs to be signed and finance to be secured. A percentage linked to projected electricity demand is uncertain since such demand can only be estimated.

It could be argued that the fixed target of 41,000 GWh per annum should be changed to a fluctuating target which is a percentage of the demand forecast by AEMO. This would represent a significant shift in policy that would have both direct and indirect impacts on the financing of renewable energy projects and is not supported by Wind Prospect.

It is important to note that the headline number of 20% has been used as a message to the public due to its ease of understanding, compared to using a figure such as 41,000 GWh per annum. As we go forward, the percentage should be used as an indicator as to the success of the legislation, rather than as a prime driver in the legislation itself. The prime mover needs to be a fixed target of 41,000 GWh per annum, a target that sends an unambiguous message that the LRET is fixed and will remain so. This unambiguous message will send a clear signal to investors that the sector must meet its target. Consequently, project finance would likely become available from the investment community.

Political support for the LRET

It is worth noting that there is bipartisan political support for the LRET and furthermore there is little or no bipartisan support for any other renewable energy initiative implemented by the government. Arguably the LRET is the only politically robust initiative to achieve the level of CO_2 reduction supported by both major parties and pledged by the Australian Government.

The LRET has been, and should continue to be, the prime driver of renewable energy investment in Australia. It supports the lowest cost renewable energy generation, far lower

than other schemes that have been introduced, including solar tariffs and grants. According to the Australian Energy Market Commission in their report of December 2011, the cost of the LRET to the average residential electricity bill is only 2.3-3.4% of the overall total.

The future effectiveness of the LRET depends on the signal that the committee sends to the sector and in particular whether that message demonstrates consistency and clarity. The most effective message is therefore one of "no change".

Consequences of a change to the LRET target

Any reduction to the 41,000 GWh target in 2020, or the trajectory towards that target, will have severe consequences due to uncertainties over future LGC revenue:

- liable parties (i.e. energy retailers) will be significantly less likely to enter into long-term PPAs
- the satisfactory operation of the evolving LGC futures will be further delayed. These futures trades are helping off-takers and generators to hedge their position on future LGC prices.
- any projects which are currently seeking finance are likely to fail. There are large uncertainties in future price projections linked to uncertainties in electricity demand, gas prices and carbon pricing

Efficiency of the LGC scheme, regardless of a carbon price

Most PPAs are structured around a bundled LGC and electricity price. This bundled price reflects the cost of production of renewable energy. If electricity prices rise in the future, the LGC prices will drop accordingly. With the unpredictability of electricity prices, LGCs present a hedge to whoever is taking the merchant risk, whether it be the generator or the off-taker. In this way, the LGC scheme drives the most economic renewable energy type into the generation mix.

When electricity prices are increased, it does not increase the price of renewable energy (renewable energy is an electricity price follower not a price setter). The electricity price will be followed and the LGC price respectively will be suppressed. The suppression of the LGC price will keep the bundled price at the market level, where the market level is the price of the next MWh of renewable energy generation. As such, arguments which suggest that the implementation of a carbon tax will negate the need for an LGC are completely misleading.

Even if the carbon price were to increase the price of electricity, the LGC price will then be suppressed, resulting in the bundled price remaining at the same market level. The bundled price is kept from rising through competition, since independent generators compete for PPAs and off-takers will always demand the lowest bundled price. As such, the LGC scheme is economically sound. It does not need to differentiate between different types of renewable energy (solar, wind, wave, tidal) and it can remain entirely efficient, achieving lowest price renewable energy regardless of the electricity price or carbon price.

Proposed renewable energy projects sufficient to satisfy the current LGC trajectory

On-shore wind is currently the lowest cost renewable energy generation. There are currently over 13GW of identified wind energy projects in advanced stages of development. This large supply pipeline has come about due to the early start of the LRET. However, the solar LGC flaws and uncertainty has resulted in the delayed delivery of operating wind farms. In the meantime, however, this pipeline of onshore wind projects has been progressing through the planning and design phases. Australia is now in a unique and enviable situation where it has a ready supply pipeline more than sufficient to satisfy its renewable energy targets.

It could be argued that this pipeline contains too much capacity. However, if there were to be an over-supply, this would create a more competitive market for PPAs and would drive down prices. which could be reflected in customers' bills.

Summary and recommendations

The key points of our submission are as follows:

- The RET has been highly effective in delivering additional large and small scale renewables into the Australian energy sector at an increasingly lower cost
- The cost of the LRET is small and reducing further, particularly when weighed up against the benefits in terms of carbon abatement, energy security, reduced energy demand, wholesale energy prices, investment and jobs
- The RET is an investment-grade policy that can deliver 20 per cent of Australia's electricity from renewable energy sources by 2020 if it is left unchanged.
- Large scale investment has already been committed on the basis of the current policy settings. These investments, along with Australia's credibility in attracting global capital for energy infrastructure, will be damaged if the LRET is changed.
- The LRET has undergone regular reviews since its inception, each time resulting in the slowing or deferment of investment. LRET reviews every two years are unnecessarily frequent and present the single greatest risk to the achievement of the 20% target by 2020 (particularly when the review is willing to consider changes to the overall target itself and not just to the operation of the LRET scheme).