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Monday, 12 May 2014

RET Review 2014

Dear Members of the Expert Panel,

Submission by WestWind Energy on the 2014 Review of the Renewable Energy Target

WestWind Energy welcomes the opportunity to make a submission to the 2014 RET review. It is our sincere hope that the views of Small and Medium sized Enterprises (SMEs) in the renewable energy industry in Australia are considered by the esteemed panel of experts.

Before commenting on some of the issues that are particularly relevant for our company I would like to submit my thoughts on your questions in your Call for Submissions dated 5 April 2014.

How has the RET performed against the objectives in the Renewable Energy (Electricity) act 2000 (REE)?

Broadly speaking the key objectives of the REE as outlined under section 2.2 of your Call for Submissions paper have been met by the RET as is evidenced by the installation figures for renewable power generation plants in Australia. As such, it appears that the RET is an effective measure to achieve these objectives.

A quick look at the figures presented in your paper on pages 5 and 6 suggests that the target under the SRES (4,000 – 6,000 GWh by 2020) has been overachieved (5,000 GWh already in 2012) and the target under the LRET (16,338 GWh for 2012) has not been met (12,000 GWh in 2012).

In our view this may in large part be a result of the overhang of "cheap" RECs from the period prior to 2011 where in particular solar PV was benefitting from certificate multipliers, generous feed-in tariffs and strongly falling technology costs. All of which has led to a slump in REC prices at the time and liable entities have banked large quantities of cheap RECs that could be counted later under the LRET. This has strongly dampened demand in the market for Large Scale Generation Certificates (LGCs) during the early part of the separation of the RET into a LRET and a SRES.

This suggests that the RET has not always performed as intended and the 2012 figures still highlight one of the issues with the scheme prior to 2011. These issues have been rectified following the 2010 review by splitting the scheme into a LRET and a SRES. If no changes to the RET were to be made now this very unfortunate effect for large scale renewable energy generators is expected to be much less significant over the coming years and investment into generation plant under the LRET can be expected to flow again. This should lead to the achievement of renewable generation targets under the LRET, which would be consistent with the objectives of the REE act.

Are there more efficient and effective approaches to achieving these objectives?

WestWind Energy is part of the international Westwind group of companies and as such we have experience with a wide variety of support mechanisms for renewable energy in various countries. In our view -and the view of experts in more mature renewable energy markets[1]- there certainly are more efficient and effective approaches to achieving these objectives than the RET. However, a comprehensive review of the mechanisms available to achieve these objectives is perhaps outside the terms of reference of this RET review. It would most likely add further doubt for an industry that is already in distress in Australia due to continuous policy uncertainty and a strong perception internationally of increasing sovereign risk.

It should be said here that the efficiency of the RET is substantially undermined by ongoing policy uncertainty and had the recommendations of the last RET review been implemented in full, one would see a more steady and cost efficient flow of renewable generation projects. It is our experience and that of all other companies active in the development of large scale renewable generation projects that the RET review period always slows down the decision making process of investors for up to one year.

Under the current government the confidence of investors in making an investment in renewable energy projects in Australia is particularly low because of the Prime Minister's and senior cabinet members' views on climate change. These views have been shared on the international stage during the Warsaw Climate Change Conference in November 2013 and Australia's behaviour at that conference and the resulting media coverage has seriously undermined investor confidence in the Australian renewable energy sector[2].

In brief, the RET is effective but ongoing policy uncertainty severely impacts on efficiency.

Do the objectives of the Act remain appropriate, in light of falling electricity demand and the Government's target and policies for reducing greenhouse gas emissions?

In our view the objectives remain appropriate under the current circumstances. A significant reduction in electricity demand has been the direct result of the RET with over 1.2 million rooftop mounted solar PV systems and over 845,000 solar hot water systems now operating in Australia. Achieving at least 20% of renewable energy in the electricity sector by reducing demand rather than just adding more supply is a positive effect, particularly of the SRES, on the way to achieving the target and should be considered as a very encouraging development, rather than a cause of concern or rethink.

The strong rise of electricity prices over the last five years –predominantly due to strong rises in cost of electricity transmission and distribution[3]- has made energy efficiency measures, particularly in the industrial sector, significantly more attractive. This and an economy that is moving away from manufacturing and towards an economy dominated by the services sector has led to another major share of the demand reduction.

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[1] *EU Renewable energy support schemes - Status quo and need for reform*
Dr. Mario Ragwitz, Head of Business Unit Renewable Energies
Fraunhofer-Institute for Systems and Innovation Research ISI
12.04.2013, Brussels
Workshop in preparation of Commission review of EU
Guidelines on State Aid for Environmental Protection

[2] *http://reneweconomy.com.au/2013/australia-turns-into-anti-climate-force-at-warsaw-40945*

[3] *Australian Energy Market Commission, AEMC Electricity Price Trends Report, March 2013*

How has the RET influenced the development of the renewable energy industry?

Without the RET the renewable energy industry in Australia would be quite small, whereas with the RET this industry employs approximately 24,000 Australians. This compares with approximately 45,000 people employed in Australia in motor vehicle and parts manufacturing[4]. Companies like ours would not have invested in Australia, would not employ permanent staff here and would not bring extensive know-how from overseas without the RET. WestWind Energy has been encouraged by Invest Australia to make an investment in Australia on the back of the RET!

Should the LRET be abolished, reduced or increased? If retained, what level should it be? What would the impact of such changes be?

The LRET should not be abolished or reduced! The LRET has a continuing role to play as the lead support system for investment in large scale renewable generation in an otherwise uncertain policy environment where the carbon tax, carbon trading and the CEFC as the other major drivers of clean energy initiatives in Australia are all likely to be abolished or are at least under serious threat. The review should therefore focus on possible improvements to the RET, rather than challenge its continued existence.

One of the key conclusions of the 2012 RET review has been that: *Confidence, including in the sustainability of important policy frameworks, is critical in persuading investors (and their financiers) to continue with their plans for long-term investments in renewable generation. Shocks to confidence, from whatever source, tend to be followed by curtailments and deferrals of investment plans, as witnessed in the mining sector of late. The Australian electricity market is already facing considerable uncertainty, not least in response to the future of the carbon price arrangements. In its recommendations, the Authority has sought to avoid adding to these uncertainties in ways that could increase risk premiums required by lenders and investors in renewable energy.*

We fully agree with the Climate Change Authority's view! The LRET is of critical importance to our company. We have invested well in excess of $15 million to date on the back of the current LRET. If the LRET is retained our investment is likely to lead to further investments in the order of $1 billion over the next 4 years. Hence it is our view that the LRET must be retained at least at its current level to rebuild investor confidence.

Do small-scale renewable energy systems still require support through the SRES? If so, for what period will support be required for?

The requirement of support for small scale renewable energy systems through the SRES is strongly dependent on other measures that support or obstruct the use of these systems. If small scale producers get a fair price and conditions for electricity they feed back into the grid they do not require further support. However, as long as the value of electricity fed back into the grid by ie. solar PV is determined to be as low as recently suggested by the NSW Independent Pricing and Regulatory Tribunal (IPART), there remains a need to support small scale renewable energy systems through other measures such as the SRES.

In our view though it would be far preferable to wean off small scale renewable energy systems of any upfront payment support systems and ensure a fair treatment and valuation of their contribution to the overall energy supply instead.

[4] *Australian Industry Group factsheet: Australian Automotive Manufacturing Statistics, Dec 2013*

Should the LRET and SRES schemes be recombined?

No! Generators supplying electricity with the support of the LRET dispatch into the wholesale electricity market and typically compete directly with large, centralised fossil fuel based power stations on the wholesale market at wholesale market prices. Renewable energy systems supported by the SRES generate behind the meter and compete with retail electricity prices and conditions. Because of other support measures that had been introduced in the past that only benefitted one size of generation, such as feed in tariffs for small scale renewable energy systems, massive market distortions have led to unsustainable prices for Renewable Energy Certificates (RECs) and brought the large scale renewable energy industry to a halt. Despite the fact that large scale renewable energy generators were -and still are- able to deliver electricity at a far lower cost.

It is highly likely that the rapid developments that are materialising in the energy storage space will lead to further market and regulatory responses over the coming years. These responses may be at the wholesale market level and / or at the retail market level and they could fundamentally distort the pricing mechanism for LGCs and / or STCs. A combined scheme would most likely not be able to respond effectively to potentially quite different market developments and may leave investors and liable parties alike in very difficult positions.

What impact is the RET having on electricity markets and energy markets more broadly? How might this change over time?

Figure 1 indicates that the National Consumer Price Index (CPI) in Australia has risen significantly more than the wholesale electricity prices during the period between 1999 and 2012. The Carbon Tax that was introduced in 2012 changed the wholesale electricity prices in line with the tax. Excluding this tax effect it can be said that during the period the RET has been in place inflation adjusted wholesale electricity prices have gone down. The effect of the abolishment of the Carbon Tax or a Carbon Price can already be seen in forward markets and indicate pricing that is in line with historic pricing as shown below.

As an aside, if the Carbon Tax was to be retained the wholesale electricity prices including tax would still be lower than inflation adjusted wholesale electricity prices would be, based on the trends over the last 15 years. The steep increases of retail electricity prices are predominantly attributable to strongly rising network costs over the last 10 years and do not correlate with movements of wholesale electricity prices.

The RET is introducing new renewable energy based electricity generation into the electricity market. As cited in the Call for Submissions paper for the 2014 RET review this new generation has already displaced some 2,300MW of black and brown coal-fired electricity generation to date and if the RET was left as it is, it will displace some 3,100MW of fossil fuel fired generation by 2020. This is an intended consequence of the RET with the aim to significantly reduce emissions in the stationary energy sector.

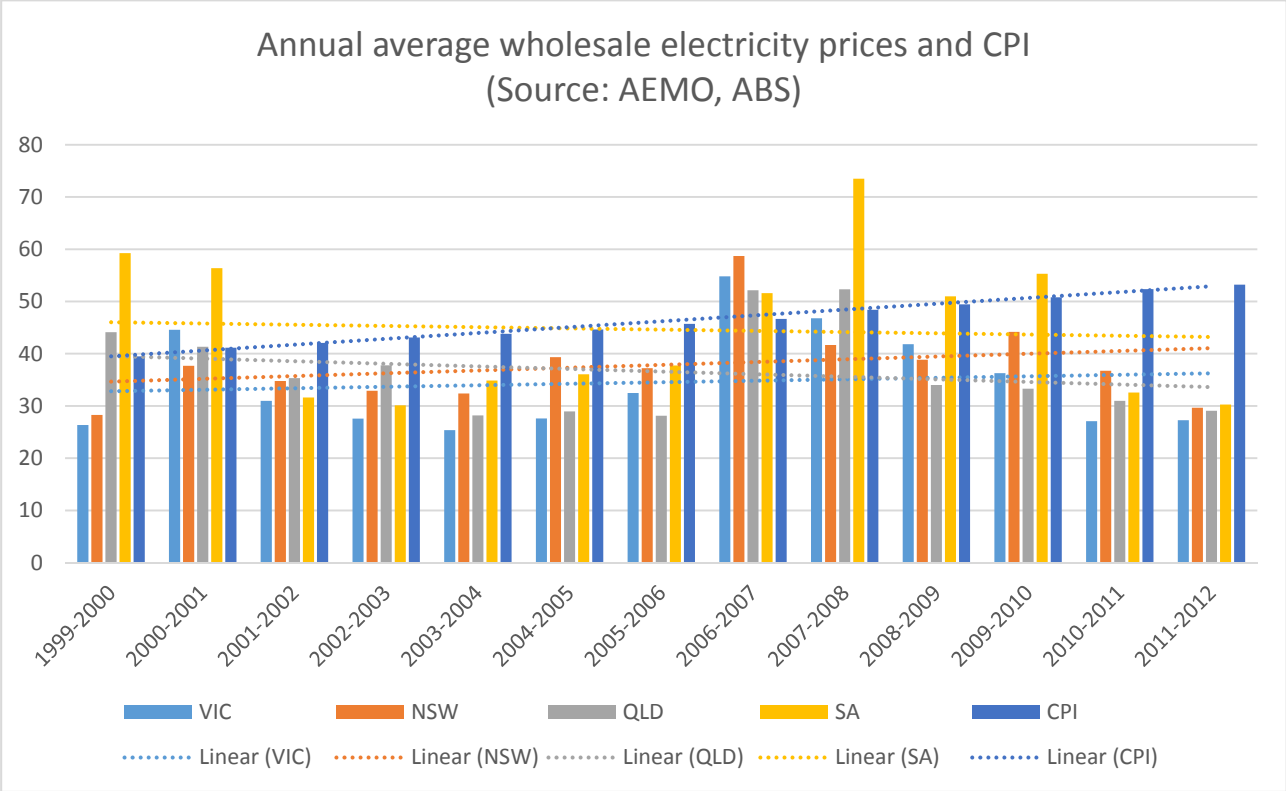

Figure 1: Dollar values and trends in wholesale electricity prices versus pricing based on CPI increase (prior to the introduction of the Carbon Tax)

The RET has helped in keeping wholesale electricity prices low through the "merit order effect", whereby non-firm renewable generation with no fuel cost is "crowding out" an increasing portion of the electricity supply needed in the wholesale electricity market.

In the National Electricity Market (NEM), energy is offered into the market by generators on a five minute basis. Each generator, or source of electricity, is used according to cost, with the lowest cost options being used first. This is called a "merit order" dispatch system.

Low-cost electricity generators, including renewable sources such as wind or non-renewable sources such as coal, are used before high-cost generators like peak gas turbines. Price is determined by cost of fuel and operating costs. The last or most expensive generator used in each five minute block to meet demand sets the price.

If new low-cost generators are added, like renewables with no fuel costs, it alters the "merit order". High-cost generators may then not need to be used, resulting in lower prices. Small scale renewable energy systems that operate at the household level, like rooftop solar PV, can have the same effect on merit order.

The merit order effect, that is partly responsible for suppressing electricity wholesale market prices for many years now, is unlikely to last forever. Theoretically supply and demand should eventually balance, as demand grows and old generators close. However, with another 8,000 MW of wind capacity projected to be installed by 2020 under the current LRET and another 10,000 MW of solar PV by 2030 it is easy to envisage a scenario where wholesale prices stay low for a long time.

This positive effect on consumer electricity prices has to be weighed against the cost of the RET to consumers as stated under 3.4 and 3.5 in the Call for Submissions paper. There it is stated that the average

household has an increase in its power bills of around 4% as a result of the RET. Expressing the $337 per year for an average SME suggests that the price rise for electricity is less than 1% as a result of the RET[5]. It becomes debatable then whether the merit order effect outweighs the cost of the RET or whether it balances it or whether the cost of the RET outweighs the merit order effect.

There is strong evidence that a high level of wind penetration in the South Australian electricity market on balance has not led to price increases for electricity consumers[6]. Figure 2 below from the report by Windlab Systems shows that wholesale electricity prices plus the cost of LGCs combined have had no discernable effect on the average electricity prices in South Australia. And there is at least one other study showing that retaining or expanding the RET will in fact keep electricity prices down (see Schneider Electric Study, April 2014)[7].

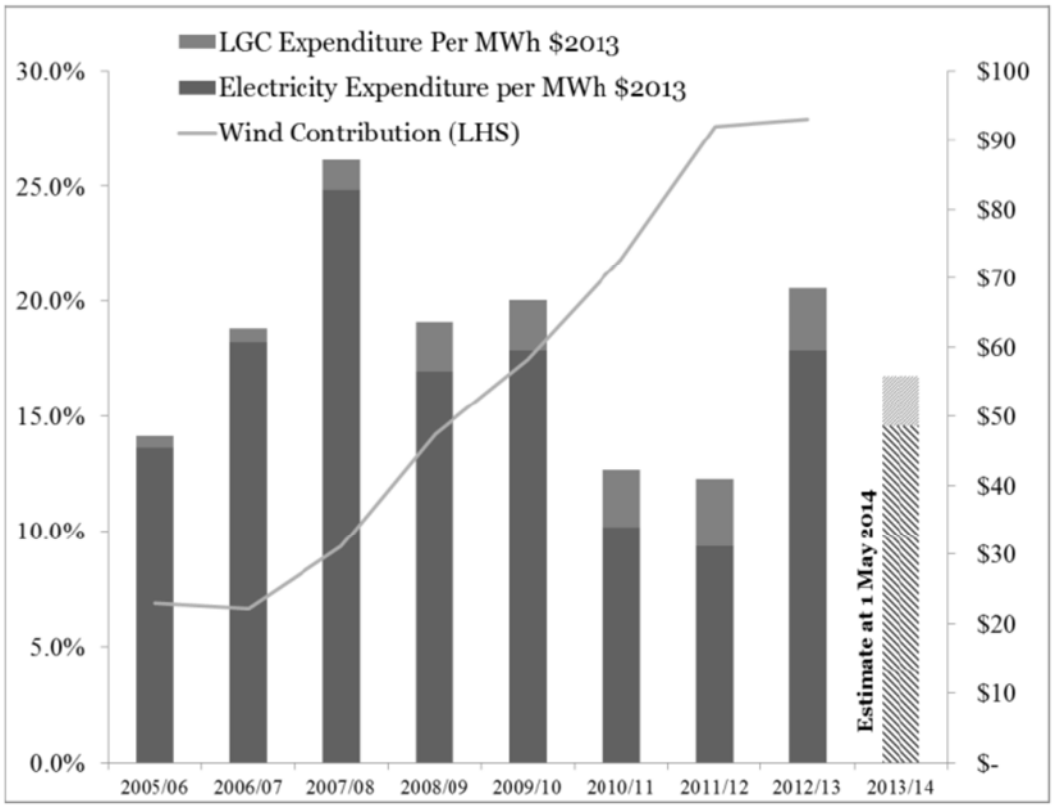

Figure 2: Wholesale electricity prices in South Australia in 2013$ inclusive of LGCs compared to the proportion of electricity from wind (excluding carbon tax).

The Australian Energy Market Commission came to very similar conclusions as Schneider Electric in their annual review of electricity price trends in 2013 and Figure 3 below notes that wholesale electricity prices are expected to remain flat as a result of increasing renewable energy generation.

[5] *SMEs typically pay very similar rates for their electricity supply as households. At $0.25/kWh an annual supply of 140MWh costs $35,000. $337 as stated in the Call for Submissions paper equates to less than 1% of the total annual cost for an SME.*

[6] *Peaking Capacity, CO2-e Emissions and Pricing in the South Australian Electricity Grid with High Wind Penetration 2005-2013. Dr David Osmond, WindScape Institute, Windlab Systems; Luke Osborne BE MBA, Windlab Systems & Reposit Power*

[7] *http://reneweconomy.com.au/2014/schneider-study-finds-boosting-renewables-will-cut-energy-costs-89361*

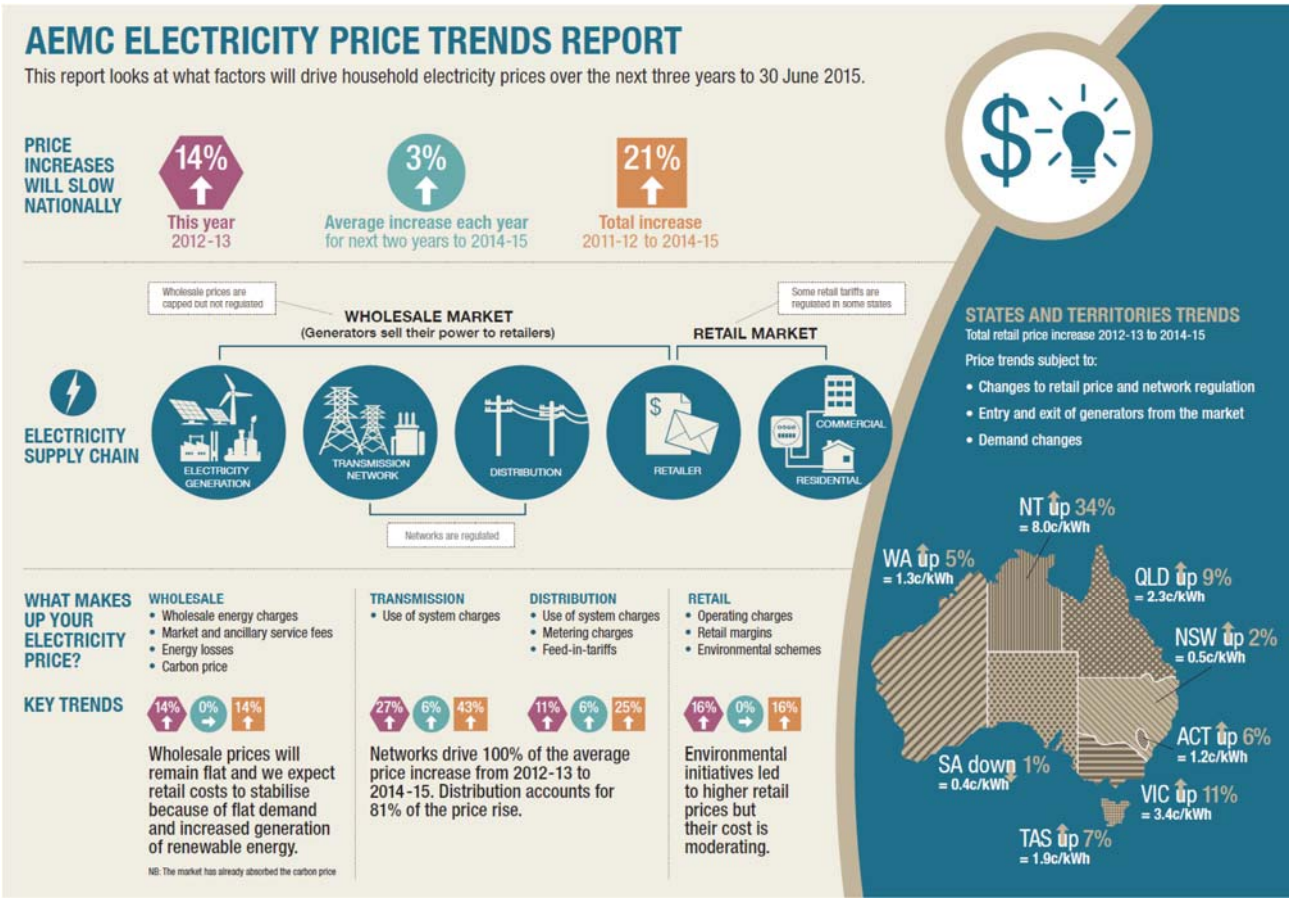

Figure 3: AEMC Infographic on electricity price trends to June 2015

In summary we would submit that the RET's direct contribution towards rising electricity prices for the consumer has been very modest whereas its effect on the wholesale electricity market has been very positive for consumers (indirect contribution). The current market environment is challenging for many fossil fuel based generators as wholesale electricity prices have been suppressed in large parts due to the introduction of significant amounts of renewable energy. If the RET was to be maintained or extended further reductions in fossil fuel based generation will be seen, yet wholesale electricity prices are likely to remain low. In our view increasing the share of renewable energy and reducing emissions intensive electricity generation is in line with a global effort to reduce emissions from the stationary energy sector. And it is likely that this will come at no or insignificant additional cost to the electricity consumer or the economy.

Are the current exemption arrangements appropriate?

No. With the low cost of renewable energy options available today for self-generators we do not see the merit in exempting self-generators from the RET. In fact, these generators are most likely to benefit financially from incorporating renewable electricity generation systems. Taking away the current exemption would most likely further encourage them to review their power generation options and help reduce emissions. This would be in line with the objectives of the RET whereas exempting these parties is not. In fact, it raises the question whether self-generators using renewable energy sources could on one hand sell LGCs and benefit from the RET whereas on the other hand they are exempt from the obligations under the RET.

We do not wish to comment on exemptions for emissions-intensive trade exposed (EITE) businesses in our submission to this RET review.

How should reforms to the RET be implemented? What transitional issues could arise and how might they be addressed?

It is paramount that before any reforms to the RET are considered for implementation all sections of the renewable energy industry are properly consulted and that the issues, investment and jobs that are at stake are fully understood and appreciated by government. After all, it is this industry that has been established with private investment on the basis of the RET and the Australian government has invited individuals and companies both in Australia and internationally to make an investment in Australia on the basis of the RET. Reforming the RET in a way that may adversely affect these investments could not only have catastrophic consequences for the Australian renewable energy industry but may also severely damage Australia's reputation as a place to invest.

Hence if there were any reforms to the RET they should be implemented in a way that recognises investments that have been made in good faith on the basis of the existing RET. And this must not be restricted to investments where renewable energy generation systems have already been financed or installed but must also include investments that were made in preparation for any seriously entertained renewable generation project.

The main transitional issue that could arise from reforms to the RET is a freeze of further investment eventually leading to numerous company defaults and massive job losses. This issue is already materialising, in particular on the LRET side, as a result of an industry wide perception of this government's ambiguity on renewable energy. The best way to address this issue is for the government to provide accountable assurance that the RET continues to be fully supported by this government and that any reform to the RET is intended to improve the RET's efficiency to achieve the stated targets.

How does the RET interact with other government policies that have, or will have, an impact on the operation of the RET, or that impact on renewable energy or energy markets more generally? What can be done to improve the efficiency and effectiveness of these interactions in delivering intended policy objectives?

It is very hard to comment on the interaction of the RET with other government policies when so much of the detail of these other government policies is very unclear at present. In our view the Direct Action Plan is very opaque and it also does not find much enthusiasm from the investment community[8]. Unlike Direct Action, the RET, in its current form and size, has proven to deliver bankable renewable electricity generation projects.

State government initiatives in the form of feed-in tariffs have been progressively wound back and hence will not have any further effect on the future of the RET. Other state government initiatives, such as extraordinarily restrictive planning policies for wind farms, are adding substantial costs and risk to renewable energy project development. Based on our own experience with wind energy projects in Victoria, we know that unreasonably restrictive state planning policies add significantly to project development costs and to electricity prices.

We submit to leave important, successful and effective legislation such as the current RET in place and manage the efficiency and effectiveness of the interaction with other government policies by recognising the RET in other policies and adapting those initiatives accordingly.

[8] *http://reneweconomy.com.au/2014/abbott-should-stop-pretending-he-is-acting-on-climate-change-74980*

Should any other energy sources be included in the LRET? Should any non-renewable (but low emissions) energy sources be included?

We are not aware of any new renewable energy sources worthy to be added to the LRET.

No non-renewable energy sources should be added to the LRET. This would be inconsistent with the objectives under the RET as it could discourage the additional generation of electricity from renewable sources by replacing renewable generation with non-renewable generation and non-renewable sources are by and large not ecologically sustainable.

What should be the frequency of statutory reviews of the RET?

In principle we concur with the Climate Change Authority's (CCA) reasoning and recommendation following the 2012 RET review regarding the frequency of statutory reviews of the RET. The CCA's recommended frequency then was 4 years.

However, one area of the RET that needs urgent review is the obligation on liable parties to acquire LGCs beyond 2030 to allow renewable energy generation projects commissioned after 2015 enough time to generate revenue from LGCs. This issue does not seem to be on the terms of reference for the 2014 RET review yet it could not wait for another 4 years to be reviewed. Hence it is our submission that unless the RET is extended beyond 2030 as a result of this RET review it must be reviewed again in two years with the intent to extend the obligation on liable parties beyond 2030. This is particularly crucial in light of the government's intention to remove any sort of carbon price.

Native forest wood waste

We do not agree with the government's policy on the inclusion of native forestry wood waste as an eligible source for renewable energy under the LRET. However, we acknowledge that the terms of reference of the 2014 RET review do not consider the review of that policy. As such we do not wish to comment or advice on administrative and regulatory arrangements on the inclusion of native forest wood waste in the LRET. We would however appreciate if our disagreement with that policy was noted.

WestWind Energy's further submissions on the 2014 RET review

On the matter of the RET's impacts on electricity prices for customers we would like to submit that the impacts are either negligible or in fact positive[9]. Reducing these impacts by e.g. diluting or abolishing the RET hence makes no sense. If anything, the positive impacts according to the ROAM Consulting study could be enhanced by expanding the RET, a suggestion we certainly believe warrants further consideration.

Even if there was a negative impact on electricity prices due to the RET, as some other studies suggest[10] the impact does not outweigh the negative impacts on investor confidence that a change to the RET would have. This is what the CCA concluded in 2012. We fully concur with this view based on our ongoing dialogue with investors for our projects. It is our observation that the attention to sovereign risk in Australia relating to investments in renewable energy is extremely high and we are not alone with that assessment[11].

[9] *Study and report on RET policy analysis, ROAM Consulting Pty Ltd for the Clean Energy Council, 29 April 2014*

[10] *SKM, Modelling the Renewable Energy Target, Report for the Climate Change Authority, December 2012*

[11] *http://www.afr.com/p/business/renewable_energy_review_raises_spectre_fBVfP9cQZqVRK306dV2OdM*

Like any other sensible business we have to stringently manage our business risk. And like other project developers and investors in the renewable energy sector in Australia our company is holding back on making further substantial investments in Australia at this point in time. For our business the likelihood that a detrimental change to the RET materialises appears high under this government and the potential consequences of this event –if unmitigated by government- could be catastrophic to our business.

This leads to the issues around implementation arrangements, risks and adjustment costs for any proposed reforms to the RET. I would like to point to the potential cost associated with reforms to the RET for our company and I suspect other developers are in a very similar position to ours. A downward change to the LRET's 41,000 GWh target by 2020 would result in substantial financial losses for our investors, up to the point of loss of their entire investment if the RET was substantially diluted, let alone abolished. I would be happy to provide you with details on the investment made to date by our company on a confidential basis if this was of interest to you.

As our business focuses on developing new renewable energy generation projects and has no income stream from other activities it is highly likely that this would mean the end of our business in Australia. This would also mean the loss of all jobs the company currently provides directly and indirectly. And many more jobs that would have been created during finance, design, manufacturing, construction and operation of these projects.

Our project pipeline consists of approximately 450MW of planning approved wind energy projects in Victoria and substantially more potential generation capacity in early stage development projects in wind, solar and battery storage. The realisation of the approved projects alone represents an investment volume of close to $1 billion over the next three years.

Let me put this into perspective in terms of employment and other financial benefits arising from our projects. A 2012 study by SKM on the economic benefits of wind farms in Australia found that, for every 50 MW in capacity, a wind farm delivered the following benefits:

- *Direct employment of up to 48 construction workers, with each worker spending approximately $25,000 in the local area in shops, restaurants, hotels and other services – a total of up to $1.2 million*
- *Direct employment of around five staff – a total annual input of $125,000 spent in the local economy*
- *Indirect employment during the construction phase of approximately 160 people locally, 504 state jobs and 795 nationwide jobs*
- *Up to $250,000 per year for farmers in land rental income and $80,000 on community projects each year.*

Based on these figures the investment our company has made to date on our approved wind energy projects would lead to:

- Direct employment of 432 construction workers spending up to $10.8 million locally
- Direct employment of 45 permanent staff spending $1.125 million locally every year
- Indirect employment during the construction phase of approximately 1,440 people locally, 4,536 in Victoria and 7,155 nationally
- Up to $2.25 million per annum for farmers in land rental income and up to $720,000 on community projects each year
- Council rates of app. $650,000 per annum

Rather than making any suggestions regarding *"implementation arrangements for any proposed reforms to the RET, including how to manage transition issues, risks and any adjustment costs that may arise from policy changes to the RET"*, we submit to simply retain the LRET at 41,000 GWh by 2020 and let us get on with our job of delivering renewable energy projects, investment and jobs in regional Australia and significant tax revenue for government at all levels!

We further submit that the end date for liabilities under the RET be extended by 5 years to allow for the orderly delivery of large scale renewable energy projects between now and 2020.

Yours sincerely

Tobias Geiger
MANAGING DIRECTOR