



14 October 2020

VRET II Market Sounding
Department of Environment, Land, Water and Planning
Electronic delivery: VRET2@delwp.vic.gov.au

Dear Sir/Madam,

Submission in response to the second VRET auction consultation paper

We are pleased to have the opportunity to provide feedback on the considerations and design for the state's second renewable energy reverse auction to support the state in meeting its 2025 Renewable Energy Target.

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with over 850 of the leading businesses operating in renewable energy and energy storage, and are committed to accelerating Australia's clean energy transition.

We commend the Government's commitment to a 40 per cent renewable energy target for Victoria by 2025 and welcome its announcement of a second auction for the supply of at least 600 MW of clean electricity to meet a share of the state's demand.

The renewable energy sector can play a valuable role in the 'clean recovery' of the state, and this auction can and should be used to bring forward projects that would not otherwise start in the next 3-5 years when the jobs and economic activity will be of greatest value.

The very significant complexities, delays and uncertainties in securing a grid connection in Victoria is currently dampening investor interest in Victoria. For the second round auction to be a success, it will be vital that there is careful planning and co-ordination by proponents, AEMO and the State Government in order to enable the efficient delivery of projects.

A successful second round would stimulate hundreds of jobs and economic activity across regional communities, maintain downward pressure on electricity prices and make a material contribution to the state meeting its emissions reduction goals.

In this submission, we provide our reflections on key learnings from VRET I and considerations for the design of round II covering the following broad themes:

1. Auction design
2. Eligibility criteria
3. Network support
4. Implications of AEMC transmission access reform proposal
5. The potential for inclusion of dispatchability and storage services
6. Contracting arrangements
7. Supply chain capabilities and local content requirements
8. Community engagement and benefit sharing.

1. Auction design and process

The Government's baseline commitment to contract with a further 600 MW of new capacity through the second round auction is considered sufficient to stimulate a significant number of new projects with capacity exceeding the Government's power purchase agreement.

The CEC would recommend the Government committing to support at least three projects in the second round in order to maximise the impact of its purchasing power.

A single auction which allows for staggered delivery dates would be the optimal approach in order to provide the most complete picture of the range of projects in contention, while enabling the proponents to work to timeframes that suit the characteristics of their project and supply chain needs. It would also maximise opportunities for the available Victorian workforce.

2. Eligibility criteria

In VRET I, projects without a planning and environment approval were excluded from the process. The CEC recommends that the eligibility criteria be relaxed for VRET II, allowing for advanced projects which may not yet have secured a planning and environment approval to submit proposals.

The rationale for such a change is that it would broaden the field of possible contenders and allow the state to benefit from the latest advances in project design and technology. The pool of pre-projects that currently have their planning and environmental consents without a power-purchase agreement already in place is relatively small (particularly within the wind sector) and would restrict the Government's choice.

While the CEC accepts that such an approach may be regarded as carrying higher risk in relation to delivery timeframes and community acceptance, we note that there are a range of strategies that the state can employ to satisfy itself that these risks are manageable. A close assessment of a proponent's experience, track record, financials, and community and stakeholder engagement record and plans should enable the Government to formulate a robust view about the ability of the proponent to deliver. Further, being clear on the location of all projects in the auction will be important as this will underpin an assessment of project viability (e.g. network access, connection costs).

Where agreed milestones or performance indicators (within the proponent's control) are not met, the Government can terminate the agreement. Bonding could also be utilised to good effect. If such an approach were taken, the Government could – and should – make it clear that the selection of the project was subject to the proponent securing a planning permit and that the proponent would be required to follow the usual processes in order to apply for one, without any favourable treatment.

We note that such an approach is not without precedent. For example, the new Queensland state-owned retailer, CleanCo, recently struck a power purchase agreement with Acciona Energy for its 1 GW Macintyre Wind Farm, which does not yet have a development approval in place. Further, the New England Connection Capacity Auction engaged with projects in earlier stages of development and was five-times over-subscribed through the expressions of interest stage.

The alternative to providing this relaxation of a requirement for a planning permit is that significantly longer lead times for the Request for Proposals process would be required.

3. Network support

All projects involved in VRET I have been delayed and impacted by the inadequacies of Victoria's transmission network to support the clean energy investment required. New and unexpected policies and processes by the Victorian Network Planner have contributed to these delays. A co-ordinated network strategy will be critical to support VRET II projects to be delivered as efficiently as possible, and to provide confidence to proponents to participate in the scheme.

One option for the provision of network support is for the Government to consider leveraging the state's PPA commitment to support the development of a renewable energy zone (REZ). This could include a contribution by the state to network improvements in strategic locations (eg. transmission capacity augmentation, storage, trials of grid-forming inverters), to complement private sector investment. The *National Electricity (Victoria) Amendment Act 2020* offers a means to do this by allowing the Government to exempt certain investments in new transmission infrastructure from the usual assessment tests, including the regulatory investment test for transmission (RIT-T).

In addition, the AEMC's current dedicated connection asset rule change is contemplating a 'dedicated network assets', which are parts of a network that are subject to a special access regime. This would offer a vehicle for regulated and unregulated entities to work together to expand transmission network access capacity driven by the commercial interests of generation proponents. This may create a pathway for transmission capacity enhancement.

Such an approach could provide for shared scalable connection solutions, which would ultimately be more cost effective for consumers. It would also provide an opportunity to enhance local supply chain and workforce development outcomes within a strategically located region.

It is important to note that taking such an approach would narrow the field of potential participants, and might exclude quality projects outside the designated REZ. Were the Government to use a co-ordinated REZ development process as the centrepiece of its plan, the EOI/RFP process would most likely require the Government to be open to projects at an earlier stage of development and without a planning permit, as per the CEC's earlier recommendation.

Regardless of whether the Government opts to narrow its focus upon a select region of the state, or keep the eligibility open to projects across the state, it will need to play an active role in working with AEMO to select projects that are well-placed technically to connect to the grid, and then work with AEMO and proponents to ensure that selected projects are set up to move through the grid connection process as efficiently as possible.

4. Implications of AEMC transmission access reform proposal

Separately, it is also worth considering the implications of the AEMC's transmission access reform proposal on VRET II. The AEMC is proposing the introduction of locational marginal pricing and financial transmission rights.

The clean energy industry is deeply concerned that this proposal introduces new complexities, risks and costs that will ultimately raise the cost of capital for new projects, and therefore does not support it. Should that reform proceed however, the aggregated cost of delivering VRET II will be higher than under the status quo, and the Government will need to consider the trade-off between bearing additional risk and the higher levelised costs of energy and hence higher strike prices.

The CEC recommends that the Victorian Government work with its jurisdictional colleagues to reject this ill-considered proposal. It is a common understanding that those who are in the best

position to mitigate or manage a risk should accept the risk. The Victorian Government is in a much better position to manage the risk of Transmission Access Reform (i.e. COGATI) by working with other States to reject the proposal.

5. Inclusion of dispatchability and storage services

While the cost of battery storage has fallen dramatically over the past two years, the commercial case for incorporating storage into utility-scale generation projects remains weak, in the absence of additional support.

This is because the intermittent use case for batteries, based on a relatively small Frequency Control and Ancillary Services (FCAS) market, and price spikes in the electricity market, makes it challenging to model the expected revenue and be assured of a financial return on investment. Currently, batteries make the majority of their revenue through FCAS rather than energy arbitrage opportunities.

AEMO identifies that between 6-19 GW of energy storage will be needed to support the 26-50 GW of variable renewable energy that is required by 2040 to meet demand and replace retiring thermal generation.

While the need across the National Electricity Market is substantial, the Integrated System Plan's central scenario anticipates only a very small amount of shallow utility scale storage (14 MW) will be needed or built in Victoria by 2025. It would however double over the second half of the decade. Under the fast-change scenario, these rates of deployment would be an additional 25 MW by 2025 followed by a step change in deployment in the late 2020s, with the installed capacity quadrupling by 2030.

There is some risk in delaying utility-scale storage to the late 2020s however, as the Integrated System Plan does not account for the possibility that thermal generators could retire earlier than currently scheduled. Therefore, it would make sense for the Victorian Government to provide incentives to bring this investment forward to the first half of the decade as insurance against early closures.

While the CEC encourages the Victorian Government to provide support for new storage capacity, we would suggest that a simpler and more flexible approach for doing so would be through a grid-scale Storage Fund that could be run in parallel to the second round auction for clean energy generation rather than through a requirement that VRET II projects must be a hybrid with a battery storage system. This would provide the flexibility for storage projects to be put forward which can address a range of different needs, including firm energy supply, network support and market services. The fund would be open to proposals from participants in the VRET generation auction, as well as other proponents/asset operators.

The Storage Fund could award successful projects through an annual capacity payment or grant funding. Another approach may be to have contracts for difference on the ancillary services provided by a battery but this is more complicated to establish and administer.

Such a grid-scale Storage Fund could be augmented by enhanced initiatives to support distributed storage.

6. Contracting arrangements

Unsleeved vs. sleeved contracts

The consultation paper floats three different models to the contracting arrangements, with options ranging from the Government directly selecting and contracting projects, through to a retailer being appointed to select and contract projects without the State being a party to the deal.

While an unsleeved or sleeved contract could be made to work, CEC members have a clear preference for the State Government both selecting the project – utilising their robust probity processes – and for being a counterparty to the agreement, which ultimately assists to reduce project risk and the cost of debt. Should the State Government prefer a sleeved contract, then the CEC proposes that the optimal model is for the retailer to be appointed separately by the state to sleeve the selected projects.

Costs of regulatory risk

There are many potential regulatory changes currently being progressed (eg. the AEMC's transmission access reform proposal, the Energy Security Board's post-2025 market review, the AEMC's investigation of system strength frameworks in the NEM) and we encourage the Government to be mindful about how contracts will be structured in order to recognise this uncertainty and heightened risk, which if all borne by proponents, will increase the costs of projects and ultimately, electricity supply.

7. Supply chain capabilities and local content requirements

The clean energy industry is committed to maximising the benefits of renewable energy projects for local supply chains and employment. Our [Best Practice Charter for Renewable Energy Developments](#) commits the 50-odd signatories who have signed onto it, to *'support the local economy by providing local employment and procurement opportunities wherever possible'*.

It is important however, that the targets of the second-round auction are realistic and achievable.

The local content requirements placed on proponents in the first-round auction (64 per cent of capex spend for the construction phase; 90 per cent of steel) proved very challenging, and in some cases unrealistic. This was due to the very limited number of suppliers available from which to source the materials and the fact that a large portion of the capital expenditure is on wind turbines and solar modules and supporting equipment which are made offshore.

In the case of wind farm developments, around 50 per cent of the project cost is in the equipment/technology, with the nacelles and blades being made and supplied from overseas, making it possible to source just the turbine towers locally.

However, there is just one supplier of towers in the Victorian market – Keppel Prince – which was unable to deliver the number of towers required for all three round one projects within the short period of time available. The CEC understands that the maximum capacity of Keppel Prince is to supply towers for up to 250 MW of generating capacity per year.

Similarly, there were instances in which other local manufacturing capabilities to support renewable energy projects (eg. cabling, transformers) were found to be unable to deliver on very large orders, or to do so all within a short timeframe, making it very challenging for projects to deliver on both the Government's stringent local content requirements and the project delivery timeframes.

In the case of solar farm developments, the equipment (modules, inverters, trackers and cables) make up more than half of the project cost, making the local content requirements similarly very challenging.

Solar farms also found that the requirement for 90 per cent of the steel to be sourced locally placed projects under significant time pressures due to the capacity and capabilities of the small pool of local steel mills – which typically require long lead times to meet orders and may not have the necessary machinery to make solar farm piles, for example. Due to the limited pool of suppliers and lack of local competition, projects also faced significantly higher prices.

Noting these significant challenges in round one, the CEC recommends that rather than high and inflexible targets, the Victorian Government develops a local manufacturing strategy (grounded in a deep analysis of existing capabilities and forecast needs/opportunities), backed by appropriate funding, to support the development of Victoria's local supply chain to meet the needs of a growing renewable energy sector, not just for Victorian projects, but for the large amount of new capacity being built and committed to around the country.

The stops and starts of the industry in recent years due to Federal policy uncertainty and now the local grid constraints, means that it has not been possible for a mature local supply chain to develop. But with the 2030 Victorian Renewable Energy Target now in place, and strong activity and targets in other states to augment demand, the State now has the solid foundation to address the weaknesses and gaps in Victoria's local manufacturing capabilities and position itself as the supplier of choice for the nation's clean energy transition.

This is not to say that round II projects should not strive to maximise local content outcomes as part of their projects. We recommend that projects should be encouraged to maximise local content and outline their commitments within their project proposals, and be evaluated accordingly. Depending on the timing of the completion of a local manufacturing strategy, projects could be assessed on their support for the proposed strategy.

8. Community engagement and benefit sharing requirements

The renewable energy industry recognises the importance of working closely with communities to develop new generation facilities in a responsible manner that reflects community expectations.

The community engagement standards across the industry have continued to mature and rise over recent years as demonstrated by the low and declining number of complaints to the National Wind Farm Commissioner (who handles complaints for all large-scale generation projects).

As part of this enhanced focus, benefit sharing practices (such as community/neighbourhood funds) are widely used and tending to become more generous over time. Some proponents are also pursuing a wider and deeper level of local community partnerships and collaboration to deliver positive outcomes across areas such as local skills and workforce development, or in addressing acute local issues such as health and housing.

One stand-out example of community engagement and investment in recent times has in fact involved one of the VRET I projects - the Dundonnell Wind Farm (Tilt Renewables) – which undertook a very significant community investment program including the installation of a mini-grid, a road safety fund, support for local not-for-profit organisations, community organisations and mental health providers, a major contribution towards safe housing for women fleeing domestic violence and education funding for residents. Tilt Renewables' program was so significant that it

was awarded the 2020 prize for Community Engagement, as part of its annual Clean Energy Council Awards.

It must be acknowledged that embarking on such a significant program is very resource intensive and is made possible by the strong support and backing by the State Government.

The Consultation Paper invites feedback on *‘allowing some level of community ownership or co-investment in the project’* as part of round II. Community co-investment or co-ownership is attracting increasing levels of interest within the renewable energy sector, and has been utilised as part of the benefit sharing model at Sapphire Wind Farm (CWP Renewables) in northern New South Wales where it raised close to \$2 million from mums and dads investors across NSW and the ACT.

The CEC considers that from a private investor’s perspective, a co-investment model (such as that used by Sapphire Wind Farm) is likely to be easier to implement than a co-ownership model, due to the complexity of some corporate and project ownership structures. Co-investment approaches generally lend themselves to broader community participation – less expertise is required to make an investment decision, and the investment sums can be smaller.

The adoption of such a benefit sharing approach as part of a broader community consultation and engagement strategy can be very effective in enhancing the sense of community participation in, and support for, a renewable energy project, and the CEC would like to see this approach utilised more widely within Australia.

However, we recommend that the Victorian Government retain flexibility within its eligibility criteria for the form of benefit sharing that projects should adopt. As noted in the [Guide to Benefit Sharing Options for Renewable Energy Projects](#) that the CEC published in 2019:

‘Benefit sharing may take many different forms and is necessarily contingent on the local context and the characteristics of the development.’¹

The Victorian Government’s *Community Engagement and Benefit Sharing Guide* for renewable energy projects, prepared in advance of VRET I, was welcomed by our members and provided useful and appropriate guidance for round one participants. The CEC considers that this guide remains appropriate for a second round in 2021, though we support periodic reviews of the guide to ensure that it remains in step with industry needs and community expectations.

As another relevant reference point for establishing standards of engagement, the CEC has a [Best Practice Charter for Renewable Energy Development](#) which outlines ten commitments that signatories pledge to uphold as they implement their projects. These include respectful engagement with communities, being sensitive to environmental and cultural values, minimising the impacts on highly productive agricultural land, and making a positive contribution to the communities in which they operate. Close to 50 companies are now signatories to the charter and we suggest that these commitments should be reflected in the State’s requirements for VRET II.

In conclusion

Thank you for the opportunity to contribute our feedback as DELWP considers the design of the second VRET auction.

¹ [Guide to Benefit Sharing Options for Renewable Energy](#), Clean Energy Council, 2019, pg. 3

In summary, the CEC recommends that the Victorian Government:

- Pursues a single second round auction for generation allowing for flexible/staggered delivery timeframes
- Considers a separate process/fund for grid-scale energy storage, which could run in parallel to the generation auction
- Develops a network support strategy as part of its preparation for the second round auction, considering as part of the analysis criteria for selecting projects, and the relative benefits of providing targeted support for projects or concentrating its network support efforts within one region to support the development of a REZ
- Considers how contracts will be structured in order to recognise increased uncertainty and risk due to proposed regulatory reforms
- Relaxes the eligibility criteria to allow projects without planning permits to lodge a proposal
- Develops a local supply chain strategy to support Victoria to increase its local manufacturing capability over time, and until that time, provide more realistic or flexible local content targets
- Maintains its strong, existing focus on community engagement and benefit sharing programs, and ensures that flexibility is maintained as to how proponents meet these requirements.

We trust that this feedback is of assistance in the Department's deliberations. Please don't hesitate to contact me on 0417 033 752 or at afreeman@cleanenergycouncil.org.au should you have any queries about this submission.

Yours sincerely,



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