

# Climate Change Authority RET Review 2014 Submission

## 1 Introduction

Senvion Australia is an established company in the Australian wind energy sector, with a very large stake in the future of the Renewable Energy Target (RET).

As a leading developer and turnkey constructor, operator and maintenance service provider of grid-connected wind farms in Australia, we have made a major contribution to Australia's energy mix by delivering approximately 30% of the local wind energy market. We are also a significant employer with over 170 staff.

Through the projects we have constructed and continue to maintain, we have invested more than \$2.5 billion into Australian businesses for sub-contracting and supply scopes of work across 18 wind farms in South Australia, Victoria and New South Wales.

Senvion is an international company, and is part of the Suzlon Group, the 5th largest wind energy supplier in the world with operations in 33 countries.

We welcome the opportunity to make a submission to the Climate Change Authority's Review of the Renewable Energy Target.

## 2 Key points

- Renewable energy has a critical role to play in Australia's energy future.
- Wind energy in particular is a mature, proven and cost-effective technology that will deliver the greatest gains in new renewable supply in the coming decades.
- The RET is an effective mechanism that has been hamstrung by ongoing policy uncertainty. Investment in new large-scale renewable energy projects such as wind farms has stalled as a result of the uncertainty around the future of the Renewable Energy Target.
- We are the developer behind the \$1.5 billion Ceres project on the Yorke Peninsula in South Australia, with is expected to create 500 construction jobs and 50 long-term jobs in regional Australia. The project received development approval earlier this year, however, it needs a strong and stable RET to move ahead,
- Maintaining the current RET will put downward pressure on energy prices, resulting in average reductions in household energy bills.
- Projections that show a lower than expected energy demand and no need for new investment for the next decade, do not reduce the importance of investing in renewable energy in the short-term to help Australia move to a low carbon economy.
- The current oversupply of generation means that, in Australia's energy history, there has never been a better time to invest heavily in clean energy infrastructure while facilitating the safe and coordinated exit of our most polluting generators.
- As a global wind company, we can confirm that the LRET can still be achieved in 2020 with the right policy settings.
- The RET should be extended beyond 2030 to ensure a sufficient investment horizon for new renewable energy projects, and to help facilitate the sustainable growth of the clean energy industry.
- Senvion Australia recommends that:
  - the LRET is retained, and extended beyond 2030;
  - the requirement for statutory reviews be removed, or, failing that, the time between reviews should be significantly extended, and the scope of future reviews must be tightened in order to protect against the risk of significant policy change every few years;
  - the inclusion of new technologies should be tested against the objective of RET to encourage the least-cost additional generation of electricity from renewable sources; and
  - a bipartisan agreement to maintain a strong and effective RET be finalised as quickly as possible.
- Beyond the scope of the RET Review, Senvion Australia recommends that the Government consider its role in facilitating the safe and effective exit of ageing and greenhouse intensive generators on the network.

### 3 Senvion Australia Position

#### Importance of renewable energy

Utility-scale renewable energy projects have a key role to play in Australia's energy future by:

- contributing to supply security by providing a hedge against rising gas prices;
- contributing to supply diversity, which will help to increase competition in the electricity generation sector; and
- supporting the transition to a low carbon economy.

Wind energy in particular is a mature, proven and cost-effective technology that will deliver the greatest gains in new renewable supply in the coming decades.

According to analysis from Bloomberg New Energy Finance last year<sup>1</sup>, wind energy is now cheaper than electricity from new coal plant or a new base load gas plant. Even without a price on carbon, wind energy is 14% cheaper than new coal and 18% cheaper than new gas.

In its Global Wind Energy Outlook 2014<sup>2</sup>, the Global Wind Energy Council estimates that by 2030 the annual value of global investment in wind energy could reach over €249 billion and account for nearly 2.2 million jobs.

Investment in wind farms can deliver significant benefits to regional Australia including providing local employment opportunities, and delivering economic benefits to farmers and local communities.

#### The RET works

The key driver of investment in large-scale renewable energy projects in Australia is the RET. It is an effective and efficient mechanism that creates a competitive market for the electricity produced from eligible generators.

#### Investment

The RET has already delivered around \$20 billion of investment. The Large-scale Renewable Energy Target (LRET) alone stands to deliver close to \$15 billion of additional investment in large-scale projects by 2020.<sup>3</sup>

Based on our experience of delivering wind farms, we have seen that wind energy delivers significant benefits to regional Australia including providing local employment opportunities, and delivering economic benefits to farmers and local communities.

To date, we have invested \$2.5 billion in Australian businesses during the construction of our wind farms, creating opportunities in regional communities and building local capability to deliver renewable energy projects.

---

<sup>1</sup> <http://about.bnef.com/press-releases/renewable-energy-now-cheaper-than-new-fossil-fuels-in-australia/>

<sup>2</sup> [http://www.gwec.net/wp-content/uploads/2014/10/GWEO2014\\_WEB.pdf](http://www.gwec.net/wp-content/uploads/2014/10/GWEO2014_WEB.pdf)

<sup>3</sup> <http://www.cleanenergycouncil.org.au/policy-advocacy/renewable-energy-target/ret-policy-analysis.html>

We have also seen spin-off benefits to the Australian supply chain, including expanded manufacturing capability of key components, such as towers, cables and transformers as well as increased haulage and crange capability, and the expanded capacity of key transport hubs, such as the Port of Portland

### Employment

The current RET is projected to generate approximately 18,400 new jobs by 2020, including 9,700 jobs in large-scale technologies such as wind power and bioenergy.<sup>4</sup>

### Training

The expansion of the wind industry has resulted in exciting new training opportunities.

We have worked with universities and educational institutes to develop renewable energy electrician apprenticeship programmes, specialist training for engineering graduates and accreditation for our wind turbine technician training program.

Over 700 people applied to be part of our wind farm apprenticeship program, which we ran in partnership with the Royal Melbourne Institute of Technology (RMIT). 10 apprentices were selected to join the program.

We have worked with the South Australian Government to deliver over 2,500 days of training worth over \$700,000. This training has developed skills in construction, high voltage operation, safety, management and leadership, as well as specific training for the installation and maintenance of wind turbine generators.

We are also working with the TafeSA indigenous access unit to set up a pre-vocational program for the Narrunga indigenous community to assist young people from the community to get qualifications and jobs on the Ceres renewable energy project.

As a result of the development of the wind industry and the demand for skilled personnel, a renewable energy training centre has been established at Mt Gambier TAFE. We now use this TAFE to deliver electrical training to our technicians across three states.

It should be noted, however, that ongoing reviews of the RET, and subsequent uncertainty about the future of the industry, have had a negative impact on these training initiatives, some of which are waiting on the outcomes of the current RET review to proceed.

### Downward pressure on energy bills

Because RET is a market mechanism, it delivers renewable energy at the lowest cost to consumers. The resulting competition within the renewable energy sector also drives innovation in renewable energy projects, which in turn drives down the cost of generation. For example, increasingly sophisticated rotor designs, materials engineering and control technologies in modern

---

<sup>4</sup> <http://www.cleanenergycouncil.org.au/policy-advocacy/renewable-energy-target/ret-policy-analysis.html>

wind turbines are being developed to improve efficiencies and maximise wind farm output at lower wind speeds.

Increased investment in renewable energy in Australia will also have a small impact on energy prices. In fact, recent modelling undertaken for the CEC by ROAM consulting found that, if the RET were to be dispensed with, Australian households would actually pay \$50 more for electricity in 2020.

### **Impact of uncertainty**

Investment in new wind farms and other large scale renewables in Australia has stalled as a result of the latest RET review, putting clean energy companies in an increasingly difficult financial position.

For example, the \$1.5 billion Ceres project has received development approval, and is expected to create 500 construction jobs and 50 long-term jobs in regional Australia. However, this project needs a strong and stable RET to move ahead,

Unless the scope of future reviews is tightened significantly, then the renewable energy industry will have the ongoing risk of major policy change every couple of years and investor confidence will continue to be eroded. The risk associated with this policy uncertainty is already having an effect with billions of dollars of renewable energy investment already moving offshore.

If there is a perception that the policy environment could change, then investors will price that risk accordingly, increasing the overall cost of the scheme.

**Senvion Australia recommends that the requirement for statutory reviews be removed, or, failing that, the time between reviews should be significantly extended, and the scope of future reviews must be tightened in order to protect against the risk of significant policy change every few years.**

## **Moving to a clean energy economy**

### Transforming the energy sector

LRET is the main policy for transforming how Australia's electricity is produced.

LRET is not designed to deliver least-cost greenhouse abatement in the short-term, but it is designed to deliver least-cost renewables. LRET is a cost-effective way to drive investment in the clean, renewable technologies needed for the long-term transformation of Australia's energy system.

The 41,000 gigawatt-hour target will see a significant increase in renewable energy generation in Australia. The Clean Energy Council's report on considerations for meeting the 2020 target found that there are no practical constraints to achieving the target<sup>5</sup>.

---

<sup>5</sup> <http://www.cleanenergycouncil.org.au/dam/cec/policy-and-advocacy/ret/Practical-social-and-financial-considerations-for-meeting-the-2020-RET.pdf>

From our perspective, as a global wind company, we can confirm that there are enough available components, skilled personnel and construction capacity to build the wind farms needed to meet the 2020 target, provided that the right policy settings are in place in a timely matter.

### An evolving policy context

Since the Climate Change Authority's previous review of the RET, the energy policy context in Australia has continued to evolve, with lower than expected energy demand, no need for new investment for the next decade, and significant changes to the clean energy policy environment. These factors do not minimise the importance of investing in renewable energy in the short-term to help Australia move to a low carbon economy.

### Impact on incumbent generators

An objective of the RET is to reduce emissions of greenhouse gases in the electricity sector. The RET does this by displacing the need for energy from fossil fuel. As a result of the RET existing generators are facing increased competition.

By increasing competition, introducing renewable energy into the current energy market puts significant downward pressure on wholesale energy prices.

Lower power prices will make fossil-fuelled (coal and gas) generators less profitable. However, most of the operating coal-fired generators in Australia were acquired or constructed by private companies after the commitment to expand the RET was made in 2007, and the legislation to increase the RET was passed in 2009. In other words, the owners of the main coal-fired generators in Australia bought these assets with their eyes wide-open.

A recent AGL report<sup>6</sup> found that there are a number of barriers to exit for incumbent generators. The report concludes that, "*closure of existing plant seems to be a crucially important step for overcoming the intractability of new renewable investment.*"

**Outside of the RET review, Senvion Australia recommends that Government considers its role in addressing the barriers to exit of incumbent generators.**

### This is the best time to act

The current oversupply of generation means that, in Australia's energy history, there has never been a better time to invest heavily in clean energy infrastructure while facilitating the safe and coordinated exit of our most polluting generators. As a result of the oversupply, the impact to energy bills will be minimal, and maintaining the current RET will lead to an overall reduction in power bills.

By 2020, 45% of Australia's coal-fired power stations will be over 40 years old. As these generation assets get older, the imperative to invest in new generation infrastructure will increase.

Significant changes to Australia's energy mix are inevitable. This is an optimal time for Government to facilitate the orderly exit of our oldest, least efficient generators while creating a market for clean energy supplies.

---

<sup>6</sup> <http://aglblog.com.au/wp-content/uploads/2014/08/No-43-energy-only-and-renewable-targets-FINAL.pdf>

## **Future of the RET**

In the first instance, bipartisan support for a strong and effective RET to address the uncertain policy environment must be the first priority to rebuild investor confidence in the clean energy sector.

**Senvion Australia recommends that a bipartisan agreement to maintain a strong and effective RET be finalised as quickly as possible.**

The industry has lost several years of growth as a result of ongoing uncertainty associated with policy reviews. As a result the window to invest in new large-scale projects to ensure a viable return is closing. To address this, it is recommended that the target be extended beyond 2030.

**Senvion Australia recommends that the LRET is retained, and extended beyond 2030.**

2 December 2014