9 November 2018

Energy Division – Underwriting New Generation Investment Submission
Department of Environment and Energy
GPO Box 787
Canberra ACT 2601
Via email: UnderwritingNewGeneration@environment.gov.au

Dear Sir/Madam,

RE: Underwriting New Generation Investments Consultation

The National Farmers' Federation (NFF) welcomes the opportunity to make a submission to the *Underwriting New Generation Investments Consultation Paper*. The NFF supports this program as recommended by the ACCC in its report, *Restoring electricity affordability & Australia's competitive advantage,* to underwrite new generation investments to address market failure and improve competition in the market.

The ACCC recommendation states that:

The Australian Government should operate a program under which it will enter into low fixed-price (for example, $45–50/MWh) energy offtake agreements for the later years (say 6–15) of appropriate new generation projects which meet certain criteria. In doing so, project developers will be able to secure debt finance for projects where they do not have sufficient offtake commitments from C&I customers for later years of projects. This will encourage new entry, promote competition and to enable C&I customers to access low-cost new generation.

The program should operate for at least a four-year period, with support provided for qualifying projects. To qualify, a project proposal must:

- ***have at least three customers who have committed to acquire energy from the project for at least the first five years of operation***
- ***not involve any existing retail or wholesale market participant with a significant market share (say a share of 10 per cent or more in any NEM region)***
- ***be of sufficient capacity to serve the needs of a number of large customers***
- ***be capable of providing a firm product so that it can meet the needs of C&I customers***

People living in regional and rural Australia pay significantly higher power prices than those living in the city. The program alone is unlikely to lead to a significant shift in regional electricity tariffs without opportunities to develop micro and distributed grid connections that would relieve transmission costs. Currently, the renewables sector is developing at a rate that the transmission and firming infrastructure is ill equipped to keep up to, and is a critical issue to be addressed. Any new policy must recognise that policy and regulatory solutions for regional areas need to be different, and notes recent power of choice reforms, ring-fencing and cost reflective network pricing.

It is the NFF's view that a well-designed program would address each of the criteria listed above and utilised to reduce the risks of excessive market intervention. The program should support projects that would not otherwise have been able to acquire medium-term financing in the absence of the program.

As noted in the consultation paper, the risks of market intervention, also experienced with the Renewable Energy Target, may include, but not necessarily limited to: incentivising over-investment in generation assets; distortion of debt markets for generation investment; and transferring investment risks from investors to taxpayers which may see costs unnecessarily passed onto consumers.

The program provides an opportunity to assist commercial and industrial (C&I) users to access affordable and reliable energy supply arrangements including those across the agricultural supply chain including irrigators, meat processing plants and pulp mills. To ensure these industries are appropriately supported, the program should be one which:

- Is technology-neutral;
- Supports low cost dispatchable sources of electricity; and
- Promotes competition in the market.

And designed consistent with the intent and objectives of the recommendation.

There are several aspects within the consultation paper which are ambiguous and raises concern about the final design of the program. They are articulated as below:

1. *Transferring of risk from investors to taxpayers*

Risks need to be carefully managed through the design of the eligibility criteria and favour the lowest cost firmed capacity generation being selected to assist C&I users.

The project eligibility criteria that projects '*must demonstrate the lack of availability of financing or the extent to which financing costs are above those of other larger market participants'* provides a wider scope than originally intended. The NFF suggests that the criteria be refined to demonstrate a lack of 'medium-term' financing that is, from 6 – 15 years, but has contracts from years 1 – 5, to ensure that projects are not assessed on their inability to access short-term finance and contracts.

2. *Firmed capacity*

The definition of ‘firmed capacity’, noted in footnote 2, indicates that solar and battery, solar thermal, and pumped hydro projects would be excluded from consideration in the program. The NFF does not see a clear rationale for their exclusion, provided they are expected to deliver new, dispatchable generation into the market.

3. *Redevelopment of existing projects via upgrades or life extensions*

While merit exists in upgrading or extending the life of existing generation in the system, existing projects owned by proponents with an already large market share should be excluded. Currently, criteria (e) (ii) *‘Otherwise, has contracts in place for most of the project’s capacity to supply electricity to commercial or industrial customers at a price that reflects cost’* creates ambiguity as to whether this is the case and should be addressed.

Additionally, the NFF suggests that the program should avoid supporting projects that either: do not enhance new generation; or would otherwise have closed due to uncompetitiveness or natural market forces.

4. *Best and lowest cost generation options should be supported*

The NFF seeks further clarification on the criteria/metrics/definition that constitute ‘best’ and ‘lowest cost’. Regional customers should be recognised as a uniquely different demographic and the ‘best’ and ‘lowest’ cost generation options may well fall outside of a generic criteria/metrics/definition.

5. *The project would be unlikely to result in an increase in electricity sector emissions to a level that is more than minus 26 per cent of the sector’s 2005 levels by 2030’*

There is ambiguity in the phrase that appears to mean that an individual project is eligible provided that the project does not exceed 26 per cent below the sector’s 2005 levels by 2030, and suggests that a project would be examined against the whole of sector’s emissions. If the intention of the criteria is to ensure that the electricity sector’s target is not exceeded due to government intervention, then the criteria are poorly written and should be reworded. Otherwise, if the intention is to ensure that an individual project should not exceed the sector’s emissions reduction target, then the criteria should again be reworded to reflect that.

However, as recommended in NFF’s previous submissions, a 26 per cent emissions reduction target should be the minimum target for the electricity sector. It is widely evidenced that the sector has the greatest capacity to reduce emissions in a cost-effective manner compared to other sectors including agriculture and transport, provided they meet reliability and affordability standards and, where possible, should be encouraged to do more. The NFF is concerned that the program will stymie the sector's efforts in its transition to a low emissions future.

Additionally, the NFF recommends that the Government ensure that the selection process for projects are robust and transparent. There are a number of bodies, including the Australian Energy Regulator or the Australian Energy Market Operator, which can provide advice to the Government on appropriate projects for selection.

Yours sincerely,

TONY MAHAR
Chief Executive Officer