10th Annual Energy & Utilities Summit

Can wind power rescue the RET?

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Can wind power rescue the RET?

Wind power can deliver the capacity but key challenges need to be addressed first

- First and foremost - regulatory predictability is required

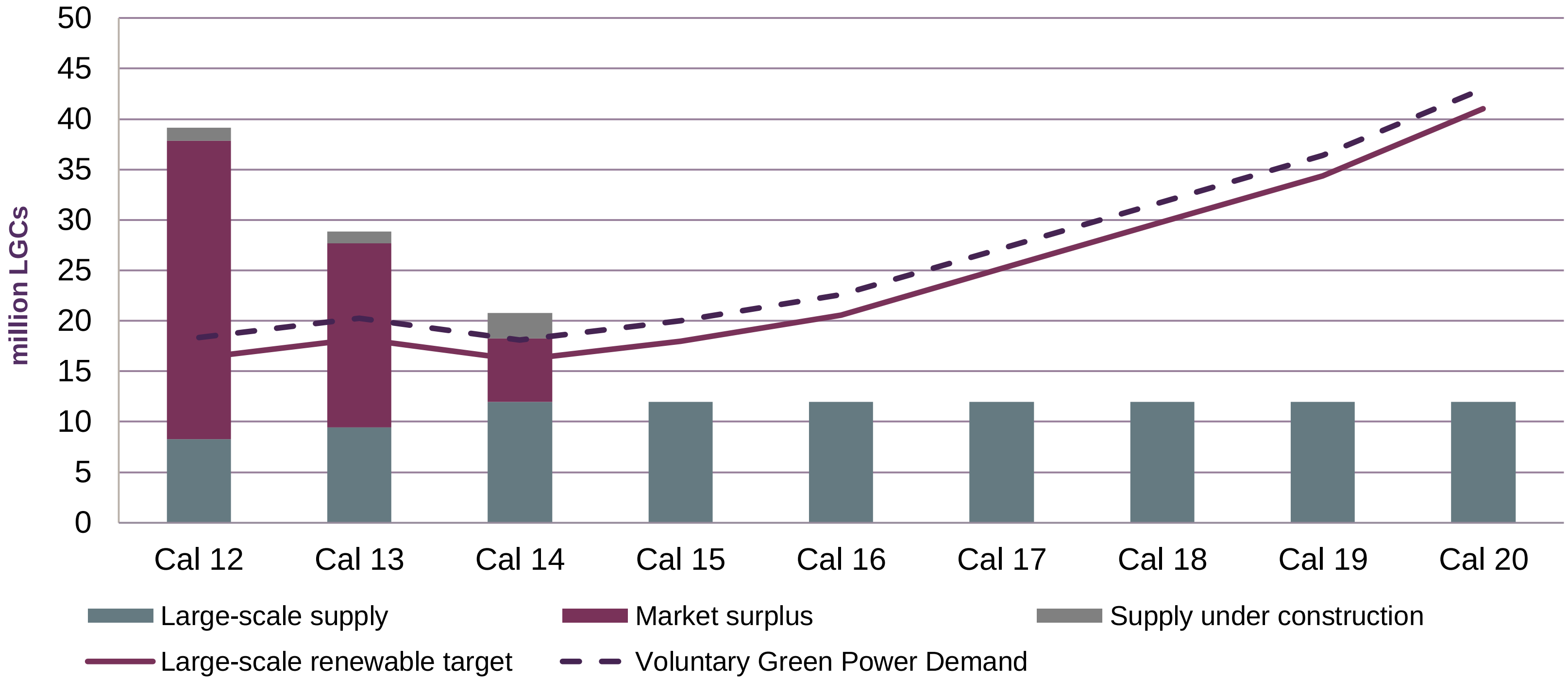
- Barriers to deployment of renewable technologies need to be resolved:

    - Sensible network planning and investment
    - Appropriate wind farm planning regulations
    - Better appreciation of benefits and costs

- Innovative contracting and funding solutions that facilitate new investment by independent power producers and improve competition in our highly concentrated and vertically integrated electricity and REC markets.

Where are we now?

Poorly implemented policies resulted in a large surplus of RECs stalling large scale investment



REC surplus has delayed up to 3000 MW of wind generation investment in regional areas

Renewable Energy Target review

The Climate Change Authority will assess the effectiveness of the RET and provide recommendation to the Government by the end of 2012

- Annual targets have been met to date, a surplus exists to meet short to medium term targets and a pipeline of developments exist to meet future targets
- Demand projections for 2020 are constantly revised. Linking the RET target to changing 2020 demand projections would lead to perpetual uncertainty
- LGCs have remained below the penalty price and LRET costs the average household $3 per month
- The RET and a carbon price are complementary measures. The foreseeable carbon price is insufficient to stimulate renewable investment in isolation
- While a stronger RET is desirable, stability of investment conditions is more important. The industry is seeking no change to the target, trajectory or penalty
- Without certainty billions of dollars of regional investment and jobs are at risk, along with the opportunity to transition Australia to a low carbon economy

Integrating Renewables into the Electricity System

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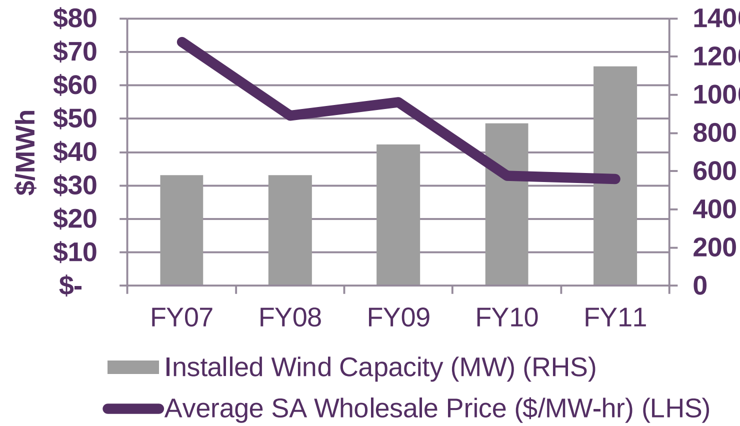
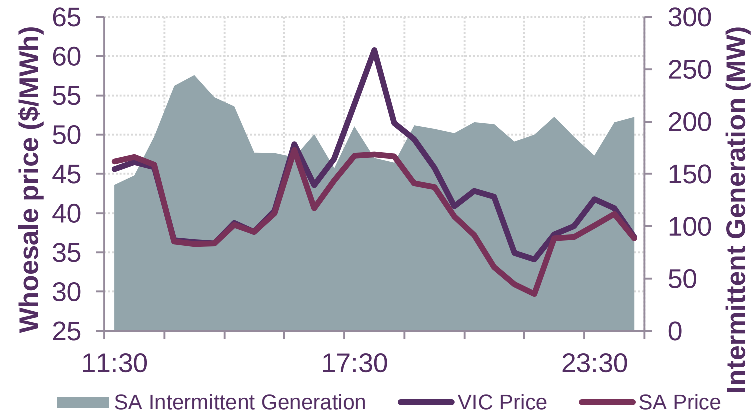
Work needs to be done to understand how best to further develop the network. Progress is slow because of vested interests

- Vast sums of money are being spent to maintain electricity systems designed decades ago for legacy technologies
- This is reflected in large retail price increases where networks are contributing around 50% of the price increase
- We must modernise how we generate, transmit and use electricity to address rising costs
- We must learn from actual outcomes rather than assumptions

SA Wind Capacity and wholesale electricity price



SA-VIC price separation (23 June 2012)



Planning Guidelines for Wind Farms

Sensible planning guidelines are required to facilitate regional investment and jobs

- Vocal minority lobbying for moratorium on wind farm developments based on unfounded accusations
- Restrictive planning regulations are being implemented despite Australian and peer-reviewed International Studies showing that there is no credible evidence that wind turbines cause any detrimental health impacts
- Carbon emitting electricity generation technologies have less onerous planning restrictions

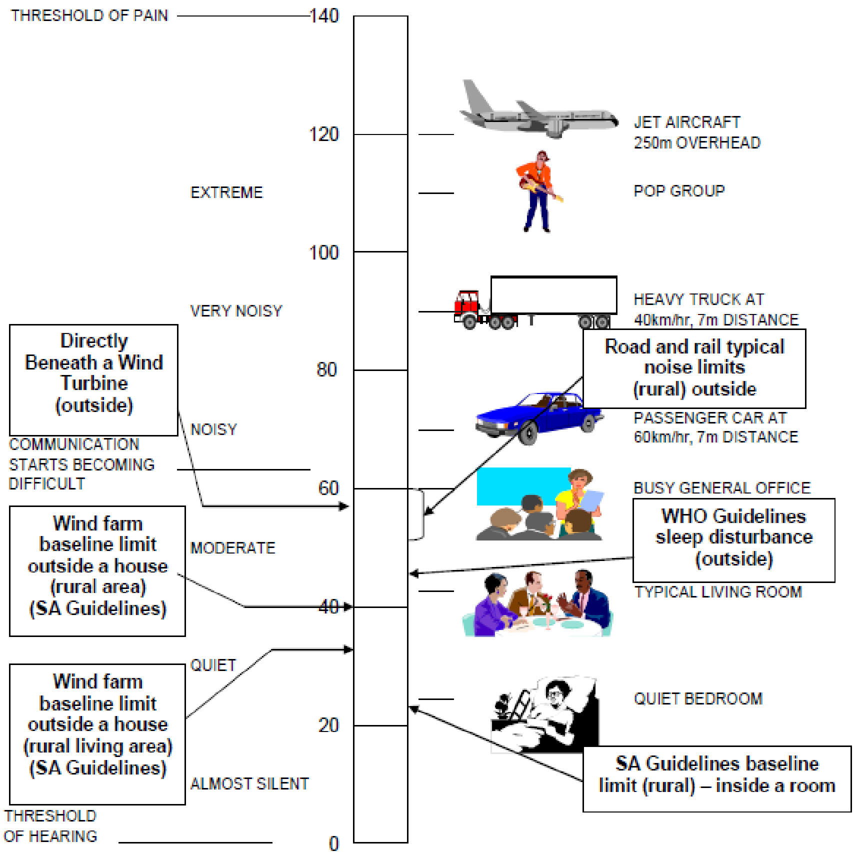


Figure 3 – Subjective Comparison of Noise Levels

Source: Sonus – Wind Farm Technical Paper Environmental Noise Nov 2011

Funding a Clean Energy Future

CEFC will address some of the funding issues experienced by independent power producers due to consolidation and vertical integration in the electricity market

- Without a PPA financing is challenging
- Limited low leverage project finance is available
- The CEFC approach and recommendations that will influence the RET and potentially remove some of the barriers include:
  - Having a renewable energy investment stream with a goal of investing 50 per cent or more of the $10 billion over 5 years
  - Ability to provide concessional finance having regard to the broader economic benefits and positive externalities
  - Ability to provide longer term debt maturities than private sector lenders
  - Some scope to take electricity price risk
- Risk remains that without a PPA private sector funding will be unavailable, notwithstanding having the CEFC as a co-investor
- Seeking alternative channels to market will be necessary

Technologies that will deliver the RET

Wind remains the clear leader but solar PV has made significant improvements recently

- Wind farms will continue to be sited at locations with a good wind resource, strong network connection and local community support
- A typical 50MW wind farm generates around $60m of local (Australian content) investment, $250k per annum for host farmers, is constructed by workers who spend $1.2m in the region, and contributes $80k annually to local community projects
- Expect wind to meet 80% of the large scale target
- Excellent solar PV resource in northern NSW
- CEFC and ARENA to play key roles in supporting the evolution of solar PV
- Biomass and Biogas will deliver some capacity
- ARENA will enable a few promising but currently marginal projects

Questions

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