Vestas Australian Wind Technology Pty Ltd

20 February 2009

Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

By email: aemc@aemc.gov.au

Dear Sir or Madam

Submission on the Review of Energy Market Frameworks in light of Climate Change Policies (1st Interim Report)

Vestas welcomes the opportunity to make a submission in response to the AEMC's 1st Interim Report as part of the Review of Energy Market Frameworks in light of Climate Change Policies (the **Review**).

Vestas is the world's leading supplier of wind power solutions, having installed more than 35,000 wind turbines across the globe. In Australia we have been responsible for the supply of more than half of the wind energy capacity to date.

Vestas does not participate in the gas market, so our comments in this submission will be restricted to the electricity market.

Policy background

Like many other companies in the renewable energy sector, Vestas has been able to make many investments in Australia as a result of the initial 9,500 gigawatt hour Mandatory Renewable Energy Target (**MRET**) scheme. This created many new jobs and improved the diversity of energy sources across the Australian economy.

The Australian Government has a policy commitment that 20% of Australia's electricity supplies by the year 2020 will come from renewable energy.

The Government has also signalled its intention to introduce a form of greenhouse emissions trading known as the Carbon Pollution Reduction Scheme (**CPRS**), which is primarily focused on reducing emissions from the energy sector over the next decade. Increase renewable energy supplies and decreasing reliance on thermal power will be likely outcomes of the CPRS.

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Future energy investment

For Australia to move from its existing level of renewable energy (currently less than 10%) up to the Government's target of 20% will require a concerted effort to attract the necessary investment in new renewable energy capacity. This is also the case with respect to reducing greenhouse emissions from the energy sector.

The current global financial crisis is one obstacle to this investment attraction effort.

But Australia competes with countries all across the globe to attract investment in energy projects. Those countries that have been the most successful in attracting these investments have been successful primarily because of positive policies and other regulatory changes to encourage them.

When investors consider where to make financial commitments for low emissions energy projects, Australia's policies will be measured against those of other countries around the world. It is crucial for Australia's policies to "measure up" if the Government's greenhouse reduction target and its 20% renewable energy target are to be achieved by 2020.

As the generation mix changes to low emissions forms of energy, it is also likely that significant transmission investment will need to occur, to unlock previously untapped low emissions energy resources in regions of Australia far away from existing thermal power stations or load centres.

AEMC 1st Interim Report

In its 1st Interim Report, the AEMC has correctly identified many issues that will need to be resolved if the Government's 20% target will be met.

In this submission, Vestas will highlight a number of key issues that flow from the report.

<u>Limited reach of MCE and AEMC</u>

It is timely for the Government to seek advice on the practical impact on the electricity market of the implementation of policies related to climate change, such as the CPRS and the 20% RET.

However, it is important to recognise that agencies (especially the AEMC) in the electricity market are often constrained from responding in a more useful way, due to the legislative framework they operate under.

Agencies such as NEMMCO and its imminent successor, AEMO, are constrained by the objectives set out in the National Electricity Law (the **NEL**).

This also applies to the AEMC. The AEMC's own website states:

> *Under the NEL when exercising its rule making functions, the AEMC must be satisfied that the proposed Rule will or is likely to contribute to the achievement of the national electricity objective. That objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.*

So while the AEMC is playing a useful role in advising the MCE of the practical impacts of climate change policies on the electricity market, when it comes to making or amending any of the National Electricity Rules (the **NER**) the AEMC appears precluded from making decisions that help deliver the Australian Government's policies on climate change.

The Australian Government should amend the NEL and other relevant energy laws to include a new objective, namely that of reducing greenhouse emissions from the energy sector.

Such a change would allow agencies such as the AEMC, AER and AEMO to consider climate change issues when making energy market rules and decisions in the future.

System operation

Lobby groups opposed to a higher penetration of low emissions energy, such as renewable energy, into the generation mix often raise concerns about supply quality, system reliability and grid operation.

Yet other countries across the world have shown that a steady increase in levels of low-emissions generation capacity can be accommodated into electricity grids at the local and the national level.

Vestas is concerned by suggestions that renewable energy is likely to cause material levels of network congestion after the 20% RET scheme commences. We consider that this issue is overstated, and with our vast experience in electricity markets all across the world we are able to say this with some confidence.

Vestas would be happy to work with the AEMC to address these concerns and provide assistance on possible rule changes and suggestions for grid managers in order to accommodate a substantial change in the mix of generation sources.

Transmission investment

It appears almost unanimous from earlier submissions to the Review that new transmission investment will be required to unlock Australia's significant untapped

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renewable energy resources, which are in many cases located well away from existing power station, transmission lines and load centres.

It also seems that many stakeholders share the same view as the AEMC in its preliminary finding that the existing model for bilateral negotiation for new connections will not cope efficiently with multiple connection applications.

However, other nations have faced this challenge and found solutions. The most widely known seems to be the concept of Competitive Renewable Energy Zones (**CREZ**s) in Texas, administered by grid manager ERCOT.

Vestas supports the CREZ framework and considers it could be potentially used in Australia, although with significant changes to existing transmission pricing rules. We think the Grid Australia submission to the AEMC dated 14 November 2008 covers this topic well.

Retail price caps

Our final point is on state government pricing controls for retail electricity customers.

While the AEMC and AER still have limited jurisdiction in this area, we are concerned about the true cost of electricity generation, transmission and distribution is being held artificially low by way of “price caps” in most states and territories of Australia.

Only Victoria has relaxed its regulation of retail prices to allow for cost-reflective pricing.

Vestas agrees with many of the other submissions to the Review that retail price regulation is an obstacle to attracting investment in new energy generation capacity, which will slow down the response of the energy market to Government policies on climate change.

Further questions

Vestas staff would be pleased to meet with AEMC staff to discuss our submission and answer any other questions they may have. Contact details are on the covering email that attaches this submission.

Yours sincerely,

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