UNION FENOSA
WIND AUSTRALIA

gasNatural fenosa

8 December 2011

Clean Energy Finance Corporation
By email: cefc@treasury.gov.au

Dear Sir,

UNION FENOSA Wind Australia – submission to Clean Energy Finance Corporation

UNION FENOSA is the Australian subsidiary of Spain's Gas Natural Fenosa, and we are committed to an investment of $2.4 billion to help Australia achieve its ambitions of reducing carbon pollution, harnessing distributed sources of renewable energy, and developing new energy industries in rural and regional Australia.

It is our understanding that the CEFC does not have an investment mandate to directly support proven and market-ready renewable energy technologies like wind power, but we hope that the CEFC's broader investment mandate might include investment in the connection and transmission assets which enable the deployment of all renewable energy projects – regardless of their technology – and the utilization of Australia's considerable renewable energy resource potential.

Therefore we are particularly interested in three of points of reference for the CEFC's requests for submissions from the renewable energy industry:

1. the proposed investment mandate for the CEFC,
2. the operating mandate for the CEFC, and
3. how the CEFC could interact with other Australian Government bodies and initiatives.

We'd like to make a few brief comments in relation to each of these points of reference.

The investment mandate for the CEFC

We note that the CEFC will invest in projects, and that half the available funds are allocated to a "renewable energy and enabling technology stream" and the other half are allocated to a "energy efficiency and low emissions technologies stream". One point we'd like to make in relation to these streams is that connecting assets like substations perform a double role in both of these streams:

- they enable connection of private projects to a grid which is maintained by a private operator to feed a national market which is overseen by AEMO, where

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that expensive connection asset is paid for by the private project developer but then effectively ‘gifted’ to the private grid operator, and
- the distribution of energy sources throughout the grid contributes to the overall energy efficiency of the grid.

An investment in the connection infrastructure could thereby be justified on either ground of the CEFC’s investment mandate.

Another point we’d like to make is that institutional risk aversion already creates incentives for capital allocation to market-ready technologies like wind power, and thus the CEFC’s focus is on newer technologies. However all renewable technologies face a significant risk in relation to carbon emission price risks or renewable certificate price risks. If the CEFC could assist in mitigating or absorbing these risks then this would be a valuable short term initiative until:
- The carbon price market was established and functioning efficiently, and
- The LRET scheme for market-priced RECs administered by ORER overcame the dysfunction it has suffered since 2009, which is forecast to remain dysfunctional until 2015.

We believe that the CEFC could play a useful intermediary role in mitigating risk, especially given its mandate to invest where there are market failures such as the MRET/LRET/SRET scheme.

The operating mandate for the CEFC

Regarding the operating mandate of the CEFC, it will be obviously desirable for the CEFC to act, and be seen to act, with genuine political independence. This independence is clearly problematic when public money is being invested, but there are examples of similar organisations (export finance corporations, development corporations, development banks) that strike the balance between public money and political independence. The Export Finance and Insurance Corporation, for example, has successfully enabled Australian businesses to overcome financial barriers to exporting by bridging market gaps that the commercial banks dare not bridge, and this commercially-oriented Government Business Authority has delivered dividends to government for the last 10 years.

It would be very important that any CEFC investment does not compromise investments in the wind sector through unintended consequences. This was the undesired effect of the Federal Government’s initiatives to boost the solar photovoltaic industry in 2009, which led to the dysfunctional market that was mentioned above (the LRET scheme for market-priced RECs). Our company, and our industry generally, made urgent submissions to the Federal Government in relation to the double-edged effects of that initiative, which went unheeded despite being well-founded and demonstrably correct.

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How the CEFC could interact with other Australian Government bodies and initiatives

The key government agents in the wind energy industry include:

- the State and local governments which promulgate planning controls,
- the ORER which administers the LRET scheme and thereby influences the price for RECs,
- the AEMO which governs the stability of the grid and the efficient operation of the NEM, and
- various grid operators which – while private – earn government-regulated investment returns for their operation of the grid assets.

Returning to an earlier observation, there is an obvious overlap between the responsibilities of these various agents at the point where a private renewable energy investor needs to connect to the grid assets. AEMO is increasingly directing investors to a suitable location for connection, while the investors are required to build the substation (which accounts for around 10% of total construction costs) and 'gift' the substation to a grid operator which then earns a regulated return on the gifted asset. Privately-owned transmission lines to the substation infrastructure are subject to approval according to State and local government planning controls, and there are numerous projects getting close to market which have not yet secured their easements for these transmission lines.

The CEFC could usefully invest in the common infrastructure that various renewable projects need for connection and transmission to the grid, while streamlining the strategy for unlocking Australia's renewable energy resources.

Conclusion

We wish the CEFC all success in its endeavours to unlock the private capital that will accelerate Australian investment in renewable energy and energy efficiency, and we look forward to working with the CEFC and the Australian Government as partners in developing Australia's considerable renewable energy resource potential.

Yours sincerely,

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