12 September 2012
Climate Change Authority
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Dear Climate Change Authority members,

RE: Renewable Energy Target Review – Issues Paper

Thank you for the opportunity to provide comments to the review of the Australian Renewable Energy Target. Please find attached a response to the questions and other issues raised in the Renewable Energy Target Review Issues Paper.

The 20 per cent renewable energy target should not be affected or slashed. The Australian Government should not be affected by the influences from the fossil fuel energy companies such as AGL Energy, Origin Energy and TruEnergy and should instead make an independent option representing the Australian public's opinion and act in the best interest of the Australian environment and economy.

If properly exploited, renewable energy resources in Australia can make a significant contribution to the Australia's energy supply. Within the context of the current financial crisis, stakeholders including the public, Australian Government, Climate Change Authority and the Clean Energy Finance Corporation should collectively seek strategies for scaling up renewable energy use so as to increase access to renewable energy and reach the Renewable Energy Target. The Renewable Energy Target Review should look at the presence of financial barriers, other impediments and risk and determine whether an investment in renewable energy can be structured to overcome these obstacles. It should address the funding, barriers and risk that inhibit the financing of renewable energy projects. The Renewable Energy Target Review should address the obstacles that affect the risk and return assessment of potential financiers and their willingness to invest.

The Clean Energy Finance Corporation has been setup to address the financial barrier however it does not address the fundamental problems with renewable energy projects across Australia. In order to be a viable, bankable project, the developer of a renewable energy project in Australia needs to obtain a purchase power agreement with a major energy retailer. This is a bankability issue common in all project financings as financiers are unlikely to lend where they are unable to see a reasonably certain revenue stream or where they are exposed to market risk. While the Clean Energy Finance Corporation may reduce the capital cost of developing a project, the Purchase Power Agreement risk arises. The PPA is a simple agreement detailing the agreed amount the Principal will pay the Supplier (power station owner) for each and every MWh over a defined time period – generally 15-20 years. The renewable energy systems do not need to be connected to the same grid or region in which the RET liability is generated; however, as each grid or power system is unique, the marginal cost of generation, and therefore the potential PPA price at each location, will be different.

The Renewable Energy Target Review should review the appropriateness of funding mechanisms and introduce strategies for large scale deployment including loan, performance and equity guarantees, soft loans, public private partnerships and mezzanine finance. The Renewable Energy Target Review should provide direction to the renewable energy sector in regards to trying to obtain finance; have term, cost and availability of funds. The availability of funds is a key barrier for the development of renewable energy technologies in Australia. The reluctance of lenders to finance renewable energy projects reflects the large capital requirements, long time horizons and high risk that investors perceive is attached to renewable energy projects. Renewable energy projects generally have large and upfront fixed costs, but low variable costs and the potential for steady cash streams. When a renewable energy plant is constructed, the front-loaded fixed costs mean that the electricity is effectively pre-paid for the life of the asset. This cost structure has implications for financing options. At the commercial scale, finance can be both equity and debt. Long-term debt financing is appropriate for large-scale projects, but loans are unlikely to be obtained in financial markets unless the project has an off-take agreement or some other guarantee of funding. The ability of emerging renewable energy technology project developers to secure power purchase agreements (PPAs) on commercially viable terms is another significant barrier. Issues around short length of tenure, competition with a PPA provider’s own development investments and policy uncertainty can mean that a PPA is very difficult to obtain. The CEFC could usefully assist with these PPA barriers, perhaps though insurance mechanisms that sit behind a PPA.

Changing the image of Australia is crucial for renewable energy investments. Closely related is the lack of support from financial institutions that promote the business and market environment of renewable technologies. These include finance, insurance companies and broker institutions that assist to reduce the very high transaction costs of clean technologies in Australia. Lack of suitable advertising media also affects the marketing of renewable technologies. Major technical progress and policy development along with financial and institutional innovations are needed to scale up the use of renewable energy in Australia.

Kindest Regards,

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