

## Government Response to Next Generation Renewables (NGR) Auction and Large Feed-in Tariff Act Review Recommendations

#	<i>Recommendation</i>	<i>Government response</i>
<b>Next Generation Renewables Auction review recommendations</b>		
1	<p>Concentration risk should be explicitly recognised by evaluating commercial exposure to a single entity (Neoen Australia, the developer of the Hornsdale projects) over the three tranches when considering a grant and when undertaking the EV1 review. In the case of the NGR auction, the exposure of the scheme to South Australia (in this case) and the concentration of inherent basis risk in this selection (that is the risk that South Australian market conditions that are the basis of settlement of the FiT payments may diverge from the ACT market conditions) should be recognised. The exposure to the South Australian market on single tranches has already been noted in reviews of previous tranches and has been partly addressed by the NGR process in a manner that Jacobs considers adequate. However, Jacobs suggests that given that 48% of the capacity, and 53% of the energy, over the four tranches have been released to one developer in one location, a particular evaluation of this is warranted. Given that Hornsdale 3 represented the clear leader in terms of value-for-money and FiT, it may nevertheless have been the case that it would have been a selected project if such further evaluation were applied in the NGR auction.</p>	<p><b>Agreed.</b> The Government notes that future regional National Electricity Market wholesale prices were considered during auction project evaluation. If new auctions are undertaken by the ACT Government in the future, it would be prudent, when considering new grants, to consider the concentration of feed-in tariff entitlements already granted. In the context of the Next Generation Renewables Auction, the Government was required to consider a range of factors including the quality and price of alternative proposals and, in this case, the Government is confident that the final selection constituted the best value-for-money.</p>
2	<p>The inclusion of the Energy Storage Contribution payment into the NGR auction process should have been explicitly called up in the Act to support its inclusion into the NGR auction for recovery from customers under the FiT process.</p>	<p><b>Agreed in part.</b> The Act provides coverage for the minister to consider a broad range of renewable energy technologies, including their energy storage. The inclusion of the Energy Storage Contribution payment in the Next Generation Renewables Auction process was explicitly agreed to by the ACT Government which gave it the required executive support needed for its inclusion in the auction. Including the Energy Storage Contribution in the Large Feed-in Tariff Act would not have provided any benefit in terms of public, industry or Assembly scrutiny of the Scheme, the details of which were made public at the time the Auction opened for proposals.</p>

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3	<p>The selections of the Energy Storage Contribution amounts and its value-for-money impact on the ACT’s customers should be explicitly considered by specialist evaluators in taxation and finance and should be considered within the scope of the EV1 specialist consultants and be fully evaluated by the Advisory Panel in any future auction.</p>	<p><b>Agreed in part.</b> It is appropriate for other sources of finance to be considered by the Government. However, it is important to note that the ESC amounts were set by a highly competitive process and, therefore, reflect the efficient cost of capital for renewable energy developers delivering energy storage capacity.</p>
4	<p>The selection of the final combination of successful projects by the Minister was made to achieve both a capacity and an energy target (to meet ACT’s 100% renewable policy by 2020). Another combination of projects was assessed by the Advisory Panel to have a better value-for-money outcome (though a higher FiT) and the shortfall in estimated energy output for this combination was small (approximately 1.5%) and immaterial when considering the uncertainties in both the ACT’s load and the likely variations in renewable energy generation by all of the FiT plants in any particular year. As it eventuated, with the subsequent withdrawal from the Auction of one of the projects by its proponent, this combination would not have ultimately been the best combination anyway. In any future auction, clarity should be provided regarding the importance placed on various criteria (if there are more than one) and assessments made of the confidence within any uncertain parameter used to measure the success of meeting a criterion.</p>	<p><b>Agreed in part.</b> If the ACT Government holds any future reverse auction allocations of feed-in tariff entitlements, it is appropriate that the uncertainties of both generator supply, and consumer electricity demand, be recognised and assessed. The final combination of successful projects had the best value-for-money assessment of all submitted projects after the withdrawal of one of the projects recommended by the Advisory Panel. The final successful projects were not selected on the basis of output alone.</p>
5	<p>In selecting the make-up of the specialist panels for the evaluation criteria assessment, it was recommended by a stakeholder that panel members have both subject matter and industry expertise rather than just subject-matter expertise. This would make operation of the sub-panels more efficient where tight time-tables apply as occurred in the NGR auction. Jacobs agrees with this recommendation.</p>	<p><b>Agreed in part.</b> Members of the specialist panels for the Next Generation Renewables Auction had substantial energy industry experience including in renewables. The Government notes that the selection of panel members was constrained by the potential for conflicts of interest. Industry expertise was captured through the detailed technical reviews that were undertaken for all shortlisted NGR Auction proposals.</p>

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<b>Large Feed-in Tariff Act review recommendations</b>		
6	<p>The inclusion of Clause 14 of the Act allowing the holder to surrender the entitlement has potential consequences that should be explicitly considered. In conjunction with the FiT amounts being constant in nominal terms (non-escalated), the expectation that the wholesale price will rise with time, and that the value of LGCs surrendered will fall to zero in 2030, all lead to a significant likelihood that the entitlement holders could surrender the entitlements before the end of the term. This would be at a cost to the ACT customers that should be estimated and factored into the estimated cost of the scheme in any future implementation of the Act.</p>	<p><b>Agreed.</b> The ACT Government will consider amending the Large Feed-in Tariff Act in 2017 in a way that will give it time to source alternative supplies of renewable electricity if a large feed-in tariff entitlement is surrendered.</p>
7	<p>The inclusion of the Energy Storage Contribution aspects of the NGR FiT auction should have been explicitly considered in the Act republication number 5. The effect of the treatment of the Energy Storage Contribution has not been presented to Parliament to our knowledge through the FiT Act Explanatory Statements nor associated Minister’s speech. The current treatment did not provide any coverage of the Energy Storage Contribution aspect in a disallowable instrument for consideration by Parliament that we could discern.</p>	<p><b>Agreed in part.</b> The Act provides coverage for the minister to consider a broad range of renewable energy technologies, including their energy storage. The inclusion of the Energy Storage Contribution payment in the Next Generation Renewables Auction process was explicitly agreed to by the ACT Government which gave it the required executive support needed for its inclusion in the auction. Including the Energy Storage Contribution in the Large Feed-in Tariff Act would not have provided any benefit in terms of public, industry or Assembly scrutiny of the Scheme, the details of which were made public at the time the Auction opened for proposals.</p>
8	<p>Consideration should be given to shifting the spot price reference node used in the FiT settlements to the local regional reference node relevant to the customers (the NSW regional reference node in the case of ACT customers). This would transfer some risk from the customers to the successful project developers but this allocation is considered common in the NEM and it should be evaluated whether this can be done without adverse impact on the outcome of auctions by way of competition or feed-in tariff pricing.</p>	<p><b>Agreed in part.</b> All participants in the ACT’s auctions submitted proposals and FiT prices based on the understanding that their local regional reference price would be used in determining their feed-in tariff payments. This was effective in creating national price competition delivering the lowest possible costs to ACT consumers. Transferring the wholesale price reference node to NSW for all generators would transfer significant settlement risk to them and would not be contemplated for existing FiT Entitlement holders. The Government will consider the advantages and disadvantages of requiring settlement against the NSW node in any future auction processes.</p>

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9	The Large Feed-in Tariff Act should make clear that Large Generation Certificates (LGCs) transferred to the ACT under the program must be voluntarily surrendered and not on-sold.	<b>Noted.</b> While the ACT Government remains committed to the voluntary surrender of its LGCs, it retains the right to reconsider whether this remains appropriate in the context of Commonwealth policy or other matters as the case requires.