



24th May 2010

Committee Secretary
Senate Standing Committee on Environment, Communications and the Arts
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Sir/Madam,

Union Fenosa Wind Australia supports the proposed changes to the Mandated Renewable Energy Target (MRET) and specifically urges the Australian parliament to promptly pass the following bills in the winter sitting of parliament:

- *Renewable Energy (Electricity) Amendment Bill 2010*
- *Renewable Energy (Electricity) (Charge) Amendment Bill 2010*
- *Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010*

Union Fenosa Wind Australia (UFWA) is a renewable generation development company that is owned by Gas Natural Fenosa, one of the largest utilities in Spain with a market capitalisation of €10.9B, making it larger than either AGL or Origin Energy. At present it has over 1,000MW of planned wind farms in Australia, located mainly in Victoria and NSW. These wind farms total over \$2bn in investment in Australia and will provide significant employment and regional development both during construction and during the lifetime of the projects. These projects are being developed to support the federal government's election promise of achieving 20% renewable electricity generation by 2020 and were planned to be underpinned by MRET legislation such that UFWA could receive adequate revenue to make these projects economic.

UFWA is concerned about the current state of the MRET legislation as a few poor policy details have distorted the market and caused a dramatic fall in the price for REC's meaning that almost all large scale renewable projects are uneconomic at present. UFWA has made previous submissions to the Department of Climate Change & Energy Efficiency highlighting some of these issues and these have included:

- “Up-front” creation of REC’s where small scale REC creators receive up to 15 years worth of abatement upon registration rather than having REC creation aligned to generation.
- “Phantom” REC’s created by small scale systems where multipliers of up to 5X are applied meaning a shortfall in the true amount of renewable generation.
- Various piecemeal policies implemented federally and by state governments including rebates and feed-in-tariffs for small scale renewables that have been applied with little consideration for their effects on MRET.

We notice that the policies to date that have caused the dramatic rise in the number of REC’s are related to the promotion of small scale renewables and demand side abatement technologies such as rooftop solar and solar hot water heaters. The oversupply of these REC’s from these sources has meant that there will be enough banked REC’s to supply approximately 2-3 years worth of MRET targets at the start of 2011 meaning that the price for REC’s has fallen significantly. UFWA supports the promotion of these technologies but believes that the federal government needs to quarantine large scale generation from the MRET by creating LRET for the following reasons:

- Incompatibility of investment horizon of large scale renewable technologies being mixed with the short term investment period required for small scale systems.
- Much of the small scale renewable technologies are in reality demand-side abatement rather than renewable electricity generation.
- Additional support to small scale REC creation through various means of support including rebates and feed-in-tariffs that inefficiently distort the attractiveness of these technologies.

Therefore as a means of providing an efficient and transparent market for promoting the uptake of large scale renewable generation in Australia, UFWA believes that the adoption of LRET as proposed in the legislation before parliament will provide a much better environment for the investment in large scale renewable projects than exists at present. As raised with the DCCEE earlier we are still concerned about the significant number of banked REC’s in existence mainly caused by the excess production of small-scale REC’s which will exist at the start of 2011, effectively delaying the true start-up of LRET by a few years. However, we would prefer to see the legislation pass in its current form rather than see the continuation of the present arrangement which is putting many large scale renewable projects at risk.

Yours sincerely

Warwick Forster – Energy Trading Manager