

# Saving and creating jobs with a new Victorian Renewable Energy Target (VRET) auction series



Policy Brief, August 2020

## Key Points

- The Victorian Renewable Energy Target (VRET) sets targets for renewable energy's share of state electricity generation (25% by 2020, 40% by 2025 and 50% by 2030). However, these targets do not ensure a smooth pipeline of projects to support industry confidence, jobs and investment.
- Victorian Government modelling suggests investment in new large-scale renewable energy faces a dramatic decline with zero new projects in Victoria between 2022 and 2025. With supply chain manufacturing job losses already looming and the Covid-19 economic slowdown unfolding, this is a recipe for disaster for this important industry of the future.
- The first and so-far only VRET auction in 2018 successfully drove new wind and solar projects, as well as local manufacturing opportunities and benefits for regional communities. The 15-year contracts signed by the government with the generators under the auction scheme are expected to provide net revenue to the Victorian Government.
- A new VRET auction series is needed to unlock jobs and promote industry certainty. These auctions should target projects in areas without immediate grid constraints and ensure a steady pipeline of projects with strong local community benefits. Additional renewable energy generation will also fast-track emissions and electricity price reductions.
- If expedited, a new VRET auction series will work as both a Covid-19 economic stimulus measure and a smart way to sustain and boost an industry critical to our energy transition.

## Victoria's renewable energy industry at a glance

There has been strong growth in Victoria's renewable energy industry in recent years. In 2019, Victoria had:

- 23.9% of electricity generation coming from renewable energy, with around half coming from wind and a quarter each from hydro and solar, both large-scale and rooftop<sup>1</sup>
- 6,098 MW of installed renewable energy generation capacity, with growth of 1,439 MW of solar and 689 MW wind since 2014<sup>2</sup>
- at least 6,090 full-time equivalent renewable energy workers.<sup>3,4</sup>

# Outlook: A bumpy ride ahead with job losses locked in without short-term intervention

The Victorian Government expects the state to reach 9,058 MW of installed renewable energy capacity by the end of 2020.<sup>5</sup> At June 2020, Victoria had 22 renewable energy projects in construction or “due to start soon”, comprising 9 solar and 13 wind projects with a combined capacity of 3,255 MW and more than 4,000 jobs.<sup>6</sup>

However, grid connection challenges as well as potential construction delays driven by Covid-19 economic impacts are likely to delay some of that capacity coming online.<sup>7</sup>

Even more concerning is the fact that the government’s own modelling projects growth

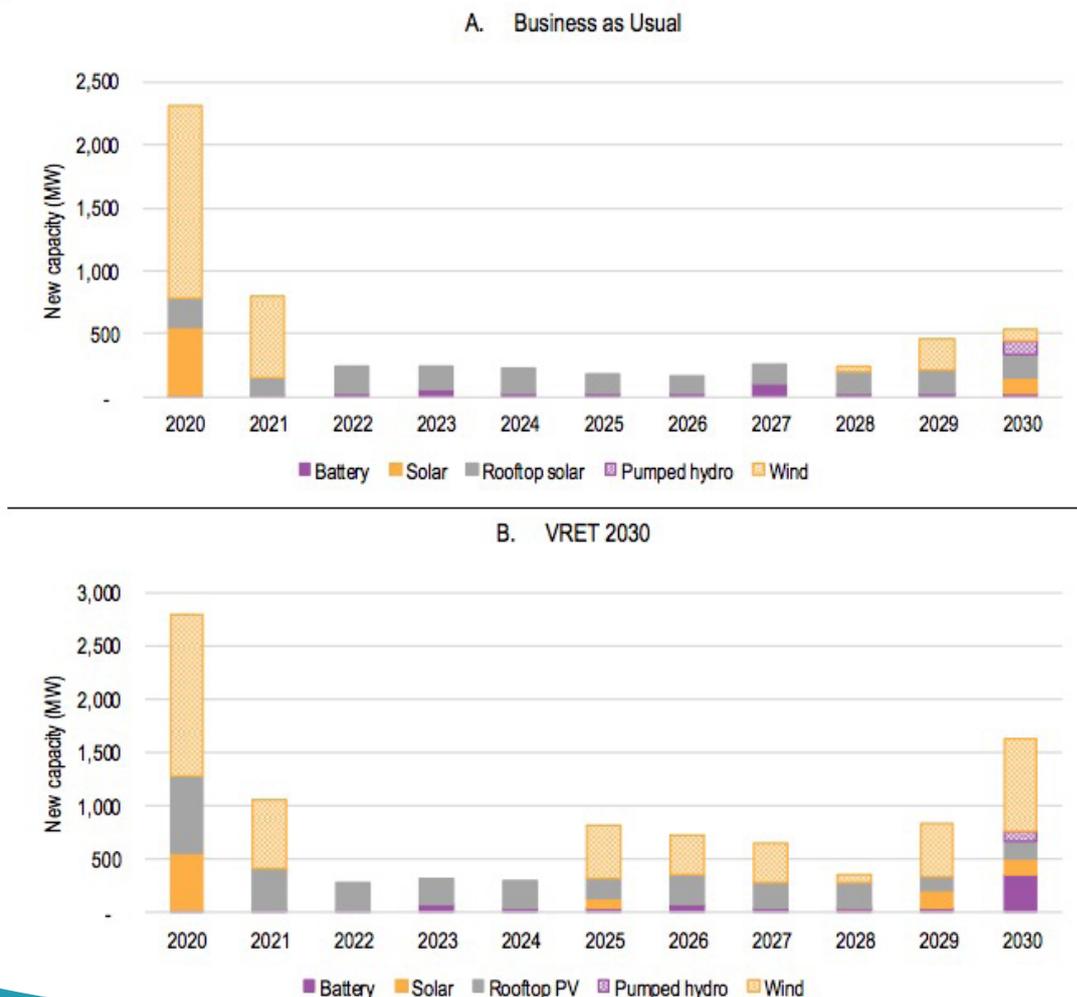
in large-scale renewables in Victoria will come to a standstill within two years. An ACIL Allen report, based on DELWP projections, shows no new wind and solar projects are expected to be added to the Victorian grid between 2022 and 2025 – irrespective of the VRET extension to 50% by 2030 (Fig 1. below).

The impact of this pause on renewable energy and supply chain manufacturing jobs would be devastating.

Jobs modelling for the renewable energy industry, based on AEMO investment projections, shows current trends leading to around 5,000 job losses across Victoria in the next few years and boom-bust cycles continuing to different degrees across all scenarios.<sup>8</sup>

Policy settings will be critical to both saving existing renewable energy jobs and creating new ones as Victoria’s energy transition continues.

Figure 1. Projected investment in new Victorian renewable generation capacity to 2030 showing no new large-scale renewable energy projects expected in the state between 2022-2025<sup>9</sup>



## Victoria's opportunity: Seize the benefits of ensuring a smooth pipeline of renewable energy projects

While the Victorian Government has been working on crucial solutions to deliver new transmission and grid augmentation capacity (noting recent amendments to the National Electricity (Victoria) Act), there is also a strong case for supporting immediate investment in additional renewable energy generation. Benefits of supporting new renewable energy projects include:

- Creating direct jobs across regional Victoria – especially important as part of economic recovery from the COVID-19 pandemic;<sup>10</sup>
- Maintaining valuable manufacturing supply chain industries, through a requirement for local content (which might otherwise be lacking from market-driven projects);
- Providing additional generation capacity, helping to shore up the electricity grid against potential retirements of a coal power station;
- Contributing to Victoria's efforts to tackle climate change.

## The first VRET auction: Driving new projects, supply chain jobs and community benefits while creating net revenue for the state government

In 2017, the Victorian Government held a reverse auction to support up to 650 MW of new renewable energy projects at a fixed price. Six successful wind and solar projects totalling 928 MW in capacity were announced in September 2018. The 3 wind and 3 solar farms are currently in various stages of construction and commissioning, though several are facing

grid constraint and connection challenges.<sup>11</sup>

Together these are expected to “generate \$1.1 billion of economic investment in regional Victoria, create more than 900 jobs including over 200 apprenticeships and traineeships, and retain a further 600 existing jobs”.<sup>12</sup>

Local content requirements have led to manufacturing industry growth including a new Vestas wind assembly plant at Geelong's Ford factory<sup>13</sup> and the expansion of Portland's wind tower manufacturer, Keppel Prince.<sup>14</sup>

The scheme's design has also resulted in successful examples of local engagement and benefit-sharing where companies have worked with communities to develop and fund programs, for example for regional suicide prevention and domestic violence support, as well as providing local grants and subsidised energy for local users.<sup>15</sup>

DELWP entered into 'contract-for-difference' agreements with each generator, under which DELWP pays the generator only if the wholesale electricity price is below a fixed 'strike price'. If electricity prices are high, the generator pays DELWP for the amount above the fixed price.

The Victorian Auditor-General's Office (VAGO) confirmed in 2019 that four of the six project agreements (the remaining two had not yet met conditions) are considered an asset to the government with an estimated value of \$285 million. This means DELWP expects to receive positive net cash flows from the generators over the 15-year agreements.<sup>16</sup>

# Designing a new VRET auction series: Creating economic stimulus and a smooth renewable energy pipeline into the future

The Covid-19 economic slowdown adds an additional layer of urgency to the need for Victorian Government intervention to support the renewable energy industry to avoid and reverse forecast job losses.

**We urge the Victorian Government to announce and deliver an expedited series of three new reverse auctions that proceed as soon as possible.**

These auctions should:

- Support at least 1,000 MW of large-scale wind and solar projects, spread evenly across three auctions, over the next 18 months, helping to ensure a smooth pipeline of projects and that the industry does not come to a standstill (as currently projected) between 2022-25;

- Be targeted at areas where there are no immediate grid constraints or where grid issues are being effectively resolved. The Gippsland area, for example, has excess grid capacity, existing large-scale wind and solar project proposals and a regional economy calling out for new employment and investment opportunities;
- Maximise local employment, training/ apprenticeship and manufacturing opportunities through strong local content requirements
- Expand engagement and benefit-sharing measures to maximise the positive returns to local communities; and
- Build on the experience and design successes of the first VRET auction, such as 'contract-for-difference' agreements that have enabled supported projects to provide net revenue to the Victorian Government, which should enable a fast roll-out.

With renewable energy jobs already at risk, there is no time to lose. The first of a series of three new VRET auctions should call for tenders within 2 months and aim to sign contracts in the first quarter of 2021.

## Endnotes

1. Clean Energy Council, 2020, Clean Energy Australia Report 2020, p.10
2. DELWP, 2019, Victorian Renewable Energy Target 2018-19 Progress Report p. 5
3. Australian Bureau of Statistics, 2020, 4631.0 Employment in Renewable Energy Activities, Australia 2018-19. This source notes 4,070 of those are in solar including rooftop solar.
4. This is a conservative estimate as ABS data collection methods do not necessarily classify construction jobs as renewable energy jobs. UTS Institute for Sustainable Futures, 2020 Renewable Energy Employment in Australia: Methodology
5. Clean Energy Council, 2020 "Project Tracker" (at June 22, 2020) <https://www.cleanenergycouncil.org.au/resources/project-tracker>
6. DELWP, 2019, Victorian Renewable Energy Target 2018-19 Progress Report p. 3
7. Rystad Energy, 2020, "Covid-19 set to wipe out global solar and wind project growth for 2020, slash new capacity from 2021", March 27
8. Institute for Sustainable Futures, University of Technology Sydney and Clean Energy Council, 2020, Renewable Energy Jobs in Australia 2020 – Victoria Summary p.5
9. ACIL Allen Consulting, 2019, Report to DELWP: Victorian Renewable Energy Transition – Economic Impacts Modelling p. ii
10. New modelling shows opportunities for short-term stimulus measures to create over 3,800 jobs in Victoria across large wind and solar projects as well as battery storage and transmission infrastructure projects over the next three years. See Alpha Beta and Climate Council, 2020, Clean Jobs Plan p. 34
11. Vorrath, S. 2020, "Huge Dundonnell wind farm hit by "unanticipated" commissioning delays" Renew Economy, July 13
12. DELWP, 2019, Victorian Renewable Energy Target 2018-19 Progress Report p.16
13. Latimer, C. and Toscano, N. 2019 "Back to the future: Old Ford factory to be recast as renewable energy hub", Sydney Morning Herald, Feb 14
14. Australian Wind Alliance, 2020 "Renewing the regions with post-Covid-19 recovery", May 20
15. Lane, T. and Hicks, J. 2019 A Guide to Benefit Sharing Options for Renewable Energy Projects Clean Energy Council, p.5
16. Victorian Auditor-General's Office (VAGO), 2019, Auditor-General's Report on the Annual Financial Report of the State of Victoria 2018-19 , p.19