

29 April 2024

Hon. Chris Bowen MP
Minister for Climate Change and Energy
Commonwealth Government
Via email: EnergyandElectricitySectorPlan@dceew.gov.au

RE: Electricity and Energy Sector Plan – Directions Paper

Dear Minister,

Squadron Energy welcomes the opportunity to respond to the Commonwealth Government's consultation paper on the Electricity and Energy Sector Plan (the Plan) published in March 2024.

Squadron Energy is Australia's leading renewable energy company that develops, operates and owns renewable energy assets in Australia. We have 1.1 gigawatts (GW) of renewable energy in operation and an Australian development pipeline of 14GW. Our development pipeline has projects at differing stages of development and includes wind, solar and firming capacity such as batteries and gas peaking plants with dual fuel capability. With proven experience and expertise across the project lifecycle, we work with local communities and our customers to lead the transition to Australia's clean energy future.

We are strongly supportive of the Commonwealth Government's commitment to delivering a Net Zero 2050 Plan and acknowledge the importance of and Electricity and Energy Sector Plan as the basis for other sectoral decarbonisation plans to come. This submission focuses on:

- the need for a holistic and forward-looking approach to both the treatment of green products pre 2030 and the redesign of the wholesale market to better align market price signals with the needs of the energy system (eg. a system with a high penetration of variable renewable energy (VRE) and the need for firming).
- the critical importance of continuing to prioritise and meet community expectations as part of the delivery of renewable energy projects and in the development of policies to support the transition.

These are discussed in the remainder of this submission.

We need to rapidly progress work on the redesign of a holistic and forward-looking energy market

Wholesale energy market redesign

As the energy sector transitions from traditional thermal power sources to renewable energy, it is essential to recognise that the current market pricing mechanisms are becoming less effective. Under the current 'energy only' market settings we are seeing increased incidences where spot electricity prices are below zero (i.e. "negative pricing"). This can be expected to increase in future as more VRE is brought online. This is because - absent battery or other storage usage - approximately 2.5 times the level of VRE capacity is required to replace each MW of displaced fossil fuel capacity. This substantial increase often leads to surplus energy generation, exacerbating the problem of negative prices. These low prices can deter further investment in renewable energy, as the financial returns become uncertain.

In response, policies such as the Capacity Investment Scheme (CIS) have been developed. The CIS aims to encourage the construction of new renewable energy generation and storage. However, to effectively

retire coal-fired power plants and reduce reliance on fossil fuels, the CIS and similar policies must be carefully managed to ensure they effectively encourage sufficient investment in renewable energy infrastructure.

Moreover, investment decisions in the energy sector are increasingly driven by government interventions rather than traditional market signals like spot prices¹. The need for a redesign of the wholesale market is evident, as clear and stable price signals are crucial for incentivising investments that align with the evolving needs of the energy system - a point highlighted in the Plan. Providing long-term revenue certainty is imperative to attract investments in new technologies.

As we continue to reshape our energy infrastructure, the redesign of the energy market must be undertaken in a timely and transparent way to support the transition to a sustainable energy future.

Clarity is required on the development of the Renewable Electricity Guarantee of Origin (REGO) scheme

We understand that the proposed Renewable Electricity Guarantee of Origin (REGO) mechanism is designed to build on the framework established by Largescale Generation Certificates (LGCs) under the Renewable Energy Target, set to conclude in 2030. Like LGCs, REGOs would be Issued by renewable energy generators, representing one megawatt-hour of electricity produced from renewable sources. A critical distinction, however, is that REGOs aim to enhance transparency in the voluntary market's renewable electricity claims, independent of the mandated RET goals.

The mechanism proposes to expand the eligibility for certifying renewable electricity to include energy storage systems and below-baseline generation. We are particularly concerned that the introduction of below-baseline REGO certificates could adversely affect investment signals for new capacity. Introducing these certificates into the REGO scheme risks oversaturating the voluntary certificate market, which could lead to a devaluation of REGOs and weaken investment signals for new renewable capacity. An oversupply of certificates could make achieving the government's renewable energy target of 82% more difficult, especially if below-baseline certificates are inappropriately restricted.

The current proposal limits the use of below-baseline certificates to Emission Intensive Trade Exposed (EITE) activities and the creation of Product Guarantees of Origin (Product GOs) until 2030. While this might minimise market distortions, such restrictions are unlikely to promote *new* renewable generation and may inadvertently hinder emissions reduction efforts. This is because allowing large emitters under the Safeguard Mechanism (EITE activities) and producers of Product GOs to offset Scope 2 emissions with below-baseline certificates could undermine the intended environmental benefits.

Given the REGO scheme is proposed to commence in 2025, the introduction of below-baseline credits during the five years leading up to the 82% renewable target risks delaying renewable uptake at a crucial time. Further, these changes could potentially increase certificate pool available for offsetting emissions without genuinely advancing the uptake of renewable generation. Particularly concerning is the incentive for EITE activities and Product GO producers to offset Scope 2 emissions rather than support renewable development through underwriting offtake contracts.

We recommend a thorough re-evaluation of the current proposal to potentially exclude below-baseline certificates, considering their likely impact on market signals and broader decarbonisation objectives.

¹ Noting the Intention and design of CIS mechanisms seeks to maintain existing market price signals as much as possible.

Community expectations must be taken seriously in the development of policies and as part of the delivery of renewable energy projects to ensure an equitable transition

With a proven track record in managing the entire project lifecycle, Squadron Energy works closely with local communities and our customers to understand their expectations and meet their needs. Our commitment centres on developing, owning, and operating renewable energy projects that deliver shared value and benefits to local communities. We are continually exploring new, innovative approaches to enhance community engagement, gather feedback and adapt to the evolving community expectations related to social licence.

Renewable energy project developers have deep and recent experience in community engagement processes, which can serve as a valuable resource for other stakeholders, including government policy makers and network planners, as their own capabilities mature. A lack of effort in cultivating and maintaining community engagement and support for the energy transition risks causing delays and failing to meet decarbonisation targets.

In this context, we would like to share insights on our current strategies for building and maintaining social licence in communities. We also suggest that greater coordination across the industry could strengthen support for regions and communities throughout this transition.

Coordination, early planning and engagement will support meaningful community outcomes and the timely delivery of renewable infrastructure

Securing social licence is a crucial aspect of any project, and in our experience, it is best achieved through early, yet carefully measured engagement at both the concept and prospecting stages. Providing communities with early opportunities to shape projects helps to build and maintain trust, mitigate extreme opposition, and identify potential risks when there is greater design flexibility and when changes are less costly.

For network planning, we believe similar principles would apply. Effective coordination across the regulatory processes that govern delivery of renewable infrastructure is vital to minimise delivery timeframes and the environmental and community impacts of the projects. This coordination becomes particularly critical in the context of renewable energy zones (REZ). The declaration of a REZ anticipates future cumulative impacts and opportunities; however, if these are not clearly and openly communicated to communities, there is a risk that support for renewable energy infrastructure and the broader energy transition could decline.

Without early and coordinated engagement, project proponents may find themselves in a difficult position, having to develop relationships with stakeholders who feel that the plans for REZs are predetermined. This situation places the onus on renewable generation project developers to regain trust and rebuild relationships.

Squadron Energy advocates for more proactive engagement with communities about the establishment of REZs. Clear and transparent planning is essential not only for the successful implementation of these zones, but also for ensuring an equitable transition for all stakeholders involved.

Community benefit sharing helps communities meet their aspirations and mitigate project impacts

Squadron Energy is deeply committed to leaving a lasting, positive legacy in the communities where we operate. We recognise the crucial role that regional communities play in accelerating our transition and achieving decarbonisation targets. Well-implemented, proponent-led community benefit sharing programs

can significantly enhance relationships and broaden the understanding of the transition's benefits to entire regions.

An important evolution in community benefit sharing is the shift towards focusing on benefits for entire regions or neighbouring properties not directly impacted by projects. This broader approach to benefit sharing is increasingly reflected in the practices of seasoned developers and, more recently, in jurisdictional REZ programs, which now often require contributions to community and regional funds. These contributions are typically separate from, and in addition to, developers' own community contributions.

The initiative to pool funds for broader community and regional benefits offers a significant opportunity to strengthen relationships across regional Australia. A critical factor in supporting this outcome is the need for better coordination and governance of these pooled benefit programs. Streamlined and localised governance arrangements are essential for ensuring that communities realise these benefits, which in turn fosters healthy relationships with infrastructure providers and enhances support for the transition to net zero.

We look forward to the opportunity to continue to support the rapid uptake of renewable generation. If you would like to discuss this submission or any related content, please contact Rupert Doney, Director - Policy at rdoney@squadronenergy.com

Yours sincerely,

Dan Newlan

EGM - Corporate Affairs

For and behalf of Squadron Renewables Pty Ltd (ACN 127 205 645)