

# SUBMISSION

VICTORIAN OFF SHORE WIND DIRECTIONS PAPER  
30 JUNE 2022



## INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

As large energy users, our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

The EUAA supports the pursuit of net zero targets but this needs to be done at least cost, not at any cost. Understanding the costs, risks and timelines of the transition is critical to good decision making by governments, investors, regulators and customers.

We welcome this opportunity to respond to the Victorian Off Shore Wind Directions Paper (Directions Paper) and look forward to a productive, collaborative process with the Victorian Government. As always our mission is to ensure the long-term interests of consumers are met. As an independent group representing consumers we feel well placed to do so.

While we appreciate this is a Directions Paper which seeks initial views of stakeholders, much of the critical detail that would allow energy users to form a view has not been provided and is difficult if not impossible to obtain from commercial participants.

Therefore, this brief submission will ask many more questions that provide answers. We hope that in future consultations the critical information we seek and the answers to the questions we ask, will be forthcoming.

### **Why off shore wind and why now?**

Initial observations of the justification of pursuing off shore wind put forward in the Directions Paper raise a number of issues for consumers. We support the pursuit of net zero targets and agree that it's unlikely that we can achieve full decarbonisation via state based on shore Variable Renewable Energy (VRE) resources alone. Therefore at some point in the future, potentially when it has moved further down the cost curve, off shore wind may play a significant role.



However, there appears to be significant issues with social licence associated with on shore VRE technology and transmission infrastructure that is stopping investment today. This apparent mis-management of social licence appears to be accelerating the urgency of the off shore wind strategy, potentially bringing forward higher cost VRE resources into the system long before they are economically competitive. From a consumer perspective, it is not unreasonable to conclude that once again we will be left to pay the bill and wear the risk due to the failures of the energy supply chain, in this case failure to maintain social licence.

Another issue that the Consultation Paper raises for consumers is the apparent reluctance to use interconnectors as part of a comprehensive, nationally consistent decarbonisation strategy. This is summarised in the figure below.

**FIGURE 8 Risks of being dependent upon interstate energy imports**

Pursuing other options to achieve net-zero is risky compared to local offshore wind

Other options available to achieve net-zero include importing renewable electricity or renewable hydrogen from interstate. However, each option has risks or constraints that prevent long-term reliance and forgo any of the benefits to Victoria (e.g. local employment).

	RISKS	COST PREMIUM VS OFFSHORE WIND
 <b>Import electricity</b>	Increasing capacity of interstate transmission lines requires unprecedented investment Land use changes of new transmission lines risk significant community pushback	~60-75%
 <b>Import hydrogen</b>	Unclear when other states will produce hydrogen at scale or have an export surplus Developing a new hydrogen pipeline network across states requires extensive planning	~5-15%

Source: Nous analysis of literature. Indicative analysis only.

We are not in a position to dispute the cost premium placed on the alternatives to off shore wind as no detailed information has been provided. However, the above seems to be in direct conflict with the AEMO 2022 Integrated System Plan that identifies net market benefits of approximately \$28 billion that can be attributed to greater interconnection.

Consumers are being encouraged to support, and pay for, greater interconnection of the NEM as the most cost effective way to achieve net zero, a position that the Directions Paper appears to dispute where it is claimed that a “Fortress Victoria” approach that includes off shore wind is the most cost effective way to achieve net zero. So it appears that Victorian consumers will be asked to pay for two plans designed to achieve the same outcome.

We encourage the Victorian Government to resolve this obvious contradiction and articulate how both a more interconnected NEM and sensible roll-out of off shore wind can be complimentary and that consumers will not pay double or even triple the cost to achieve the desired outcomes of net zero, reliability and affordability.

Finally, it has been stated that Victoria’s off shore wind strategy will “blow away” any issues associated with gaps in capacity as our ageing thermal fleet retires. While we concur that off shore wind will have better capacity factors than on shore wind and that it is likely to be more consistent (i.e. there will be dips in generation but not to the same extent as on shore wind) we are not convinced that it is a suitable replacement for dispatchable capacity.

It seems highly improbable that a weather dependant energy source like off shore wind will be capable of filling the long duration gaps left by a weather dependant energy source like on shore wind. They will largely be impacted by similar weather patterns and therefore suffer the same dips in output (although to differing degrees).

Perhaps we can be convinced if/when data is provided to demonstrate that it is possible to achieve the stated outcome, but until that time we are highly sceptical.

**Cost.**

Quite clearly off shore wind is far more expensive than on shore alternatives. While off shore wind costs appear to be coming down as deployment increases it is likely to continue to be at the higher end of clean energy sources.

The following cost curves are taken from the CSIRO GenCost 2021-22 Consultation Draft released in December 2021<sup>1</sup>

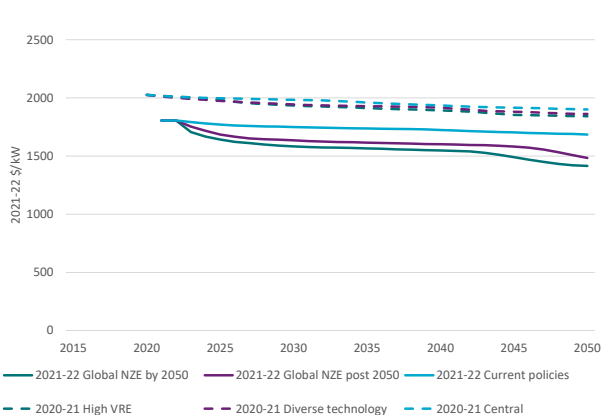


Figure 4-12 Projected capital costs for onshore wind by scenario compared to 2020-21 projections

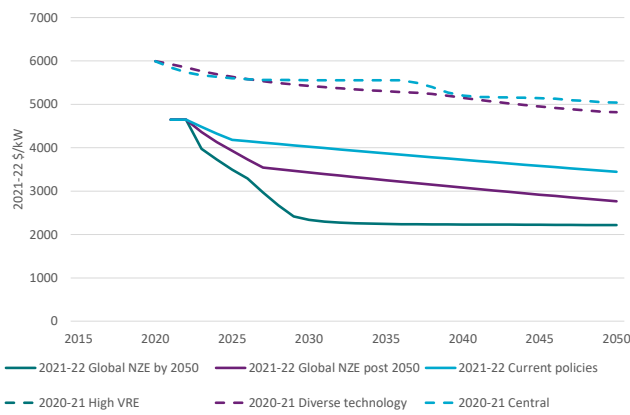


Figure 4-13 Projected capital costs for offshore wind by scenario compared to 2020-21 projections

While LCOE is a combination of a range of inputs including capital costs, grid connection and wind resources, the costs included on page 21 of the Directions Paper seem optimistic when compared to these latest numbers from CSIRO and in any case would need to be revised upwards given the observed trends of increased capital costs and supply chain disruptions to both material and human resources.

It could be argued that if off shore wind was to play a role then we should wait for it to move further down the cost curve rather than locking into a higher energy cost for the next 20 years, especially when cheaper alternatives are already available.

**Cost recovery/funding/risk allocation.**

If it's governments intention, at least in the initial phases, to fund off shore wind via the state balance sheet (i.e. a combination of grant funding, equity participation or underwriting risk via CFD's) then that is a political decision. However, if cost recovery and risk will be borne by Victorian energy users via opaque cost pass through arrangements on distribution bills (as we are observing in NSW) or transmission bills (as is already the case via the Easement Land Tax) then consumers would be very concerned, especially in light of comments made earlier in this submission.

Unfortunately the Directions Paper provides no guidance on this so we are left to assume the worst, that being consumers will bear the cost and risk of an expensive energy resource strategy. We would welcome further discussion on this and encourage the Victorian Government to be transparent on the issue of cost and cost recovery.

**Benefits: Energy User v Whole of Economy.**

The Directions Paper speaks about the many economic benefits that could come about as part of the off shore wind strategy. Objectives such as regional jobs, creation of new industries, local content etc are worthy but not directly

<sup>1</sup> <https://publications.csiro.au/publications/publication/Plcsirop:EP2021-3374> CSIRO has been publishing the GenCost Report for several years and uses the most up to date information to form Australian based assessment of generation and storage capital cost and LCOE.

related to energy users (i.e. energy users don't get a benefit from these extra objectives) and therefore should not be funded by them. If governments desire outcomes that go beyond the long term interests of consumers as outlined in the National Electricity Objective then governments should be the party that funds these activities not energy users.

The Directions Paper also talks to the jobs to be created by the off shore wind strategy. Over the last 20 years many claims have been made about job creation, most of which have failed to deliver. Yes there are jobs in construction and installation and a limited number of jobs in operations and maintenance however, one of the great advantages of any renewable energy source is that they are very cheap to run, meaning they do not have to employ large numbers of people.

We are also sceptical about large scale manufacturing opportunities resulting from this strategy. Again, the renewable energy industry is littered with dashed hopes of large scale manufacturing. We hope we are wrong and we do see significant new industries develop but simply hoping something will happen doesn't mean it will.

Once again, thank you for the opportunity to make this submission. Do not hesitate to be in contact should you have any questions. We look forward to engaging with the Victorian Government over the coming months as more detail is made public.

Kind regards,



Andrew Richards  
Chief Executive Officer