

# POWERCORP

## Intelligent Power Systems

Chairman  
MRET Review  
GPO Box 621  
Canberra ACT 2601

10/04/2003

Dear Grant,

I wish to keep this submission very short and to the point as I am sure you will receive many long and convoluted submissions.

1. The fact is that very few viable renewable projects have been taken to completion so far.
2. In reality the nearest commercially viable projects are based on large scale wind turbines.
3. With the penalty at \$40 the economics of wind projects is marginal even in good locations.
4. The up front risk in wind farm project development is in the order of \$1m before financial closure.
5. The available sites for connection of large scale wind are much reduced in number than was originally estimated due to local environmental and transmission access limitations.

The above points represent reality today. Even so some early entrant investors have undertaken wind farm construction and Powercorp has built two of the largest plants at Windy Hill (12MW) and Albany (24). These plants are running well and delivering RECs.

An increase in the MRET will not improve the economic viability of projects. It will increase the impost on retailers and create friction in the industry.

### **Proposal to improve renewable energy project take up;**

What is required is an improved investment environment to attract developers. In the UK a scheme has been developed to achieve just this without costing retailers or Government any further funds.

If I am incorrect in my comments above and the full 2% target is reached under the present scheme then one can argue that the penalty rate was struck at a correct value.

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However, experience to date shows clearly that it seems most unlikely that the 2% target will be reached under the present scheme. The penalty is too low.

If, however, say 50% of the target is reached because some developers attempt to build projects despite the low returns then it is implied that 50% will just pay the penalty.

**If the review committee were to recommend (as has been done in the UK) that penalty payments received were to be returned as a bonus payment to investors surrendering certificates from real projects then the impact on the commercial success of these projects would be very substantial. In this way early entrant developers are rewarded with higher returns, there is no additional cost to Government or electrical retailer.**

In practice it would work as a sliding scale with some overshoot but basically settling on a return rate that the market would sort out as "commercially viable". Yes the quantum of MRET would be less than the 2% but not only would early entrants be rewarded and the project implementation be accelerated but the real rate of return necessary to achieve viable projects would be set by the market. Government would then be in a position to consider raising the penalty to achieve this rate (or not) and whether (or not) to increase the MRET, at a later review.

I wish you well with the review and would be more than willing to speak to the concept but unfortunately I will be unavailable for the Darwin session on the 15<sup>th</sup>.

Kind regards

Alan Langworthy  
Managing Director  
Powercorp Pty Ltd

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