



EASTERN ALLIANCE
FOR GREENHOUSE ACTION

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DELWP
Energy Transition Projects
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Online via: <https://engage.vic.gov.au/pbiv>

To whom it may concern,

RE: Powering Business in Victoria – Market Facilitation Platform (MFP) consultation

The Eastern Alliance for Greenhouse Action (EAGA) is pleased to provide this response to the State Government's consultation on a Market Facilitation Platform for Power Purchasing Agreements (PPA).

EAGA is a formal Alliance of eight councils in Melbourne's East, committed to delivering mitigation and adaptation projects and advocating for initiatives that support sustainable, low carbon communities. Our members include:

- City of Boroondara
- Glen Eira City Council
- Knox City Council
- Maroondah City Council
- City of Monash
- City of Stonnington
- City of Whitehorse
- Yarra Ranges Council

We commend the Victorian Government's various initiatives to support the expansion of renewable energy across the State and for seeking to develop pathways to enable Commercial and Industrial (C&I) energy users to access the benefits of renewable PPAs through its Powering Businesses in Victoria program.

PPAs have, and continue to play, a vital role in driving renewable energy investment and grid decarbonisation in Victoria, and across the nation. Supporting the uptake of PPAs would be a highly effective and worthwhile initiative for the Victorian Government to pursue to meet its renewable energy targets and support the community transition to zero emissions. By enabling businesses

greater access to PPAs, the Victorian Government can better support businesses to manage their energy costs and climate risk exposure. A well-designed PPA has the potential to deliver multiple benefits to buyers: electricity cost reductions, greater budget certainty, the ability to hedge against energy market volatility, reputation and brand benefits, rapid and substantial emissions reductions, and the ability to meet net zero or carbon neutrality commitments.

An effective MFP could bring enormous benefits to the Victorian economy and accelerate the energy transformation. This submission provides some key insights and opportunities for consideration and makes a number of recommendations for strengthening its ultimate design.

The below recommendations are informed by direct experience in leading and facilitating successful group PPAs through the Victorian Energy Collaboration (VECO), and indirectly through the Melbourne Renewable Energy Project (MREP). We urge the State to consider the following issues in the design of the MFP:

1. *Co-develop the MFP with local governments that have delivered successful transactions*

In 2017, a buying group led by City of Melbourne, including the cities of Yarra, Moreland, and Port Phillip, announced the Melbourne Renewable Energy Project (MREP), one of Australia's first renewable PPAs and the world's first group retail PPA. The fourteen participating organisations contracted 88GWh per annum which catalysed the construction of the Crowlands Windfarm – a \$200 million, 39 turbine, 80MW capacity windfarm near Ararat in Western Victoria.

Building on the lessons learnt in delivering the first MREP, the City of Melbourne facilitated a second renewable PPA in 2020 (MREP2) with a group of seven leading corporates, who secured an 110GWh per annum retail PPA under a ten-year supply agreement with a portfolio of existing Victorian wind assets. MREP2 was closely followed by the Victorian Energy Collaboration (VECO) – a landmark initiative led by Darebin City Council – that enabled 46 Victorian councils to switch to 100 per cent renewable electricity, under a 9-and-a-half year retail PPA deal for a combined load of 240GWh per annum.

Since 2017, only three group PPA deals have been struck in Victoria. All three involved local governments and were led and facilitated by council representatives. The staff involved in these transactions possess deep expertise in running PPA programs. To draw on this experience, the Victorian Government should establish an Expert Reference Group, comprised of local government representatives and others from the private and NGO sectors, who could help inform the development of an MFP and better ensure its successful design and delivery.

The release of this MFP consultation is ideally timed to access insights from a Business PPA program currently being developed by the City of Yarra, in collaboration with the cities of Darebin, Moreland, Port Phillip, Melbourne, Northern Alliance for Greenhouse Action and EAGA. The council working group has developed a specification for a facilitation service provider and is beginning initial recruitment of businesses. This group of councils would like to invite DELWP representatives to participate in the project as an observing member of the working group, so that key learnings can be effectively incorporated into the State's MFP consultation and design, and long-term planning. Following the conclusion of the pilot, the MFP could be subsequently scaled-up and resourced on an ongoing basis.

2. *Prioritise and design the MFP around a facilitation 'service'*

The MFP Consultation Paper provides an insightful and comprehensive assessment of the many barriers faced by parties involved in a PPA, particularly buyers. We agree that complexity, lack of

knowledge and internal capability, transaction cost, size, bankability, contract tenure, and difficulty in forecasting future market conditions and assessing financial risks and benefits, are all significant barriers that a well-designed MFP has the potential to address.

Based on the lived experience of councils, simply establishing a platform to connect PPA buyers and sellers and providing information, market intelligence, guides and templates, would be, in and of itself, insufficient to drive significant PPA uptake by businesses.

The Business Renewables Centre Australia (BRC-A) currently provides extensive resources, information, educational support, and does so freely and extremely well. Nevertheless, the deals struck in recent years have almost exclusively transacted by very large and sophisticated organisations. It is therefore reasonable to conclude that information is not the most significant barrier for buyers with loads of 2-40GWh. It appears far more likely that load size and capacity present more of a barrier to buyers than information.

Aggregation through buying groups should be the central component of any program that seeks to enable more C&I businesses to gain access to PPAs, as aggregation addresses barriers of scale and transaction costs, and increases the likelihood of sharper pricing for buyers through coincident demand/supply matching and economies of scale. By aggregating the electricity demand of a multiple organisations, and by pooling knowledge and sharing resources, buying groups are able to increase their purchasing power and secure better commercial outcomes - while also achieving greater social and environmental impact by enabling investment in new renewable energy projects in the regions.

The primary market barrier and gap that needs to be filled is not information or connection to suppliers, but rather access to aggregation and facilitation services to assist them through the transaction journey. As demonstrated by MREP1&2 and VECO, aggregation and facilitation is a proven strategy for addressing many of the barriers facing buyers – scale, transaction complexity, and transaction costs - and assisting the process of collective decision-making.

A lack of facilitation providers, and access to credible and affordable facilitation services, should be one of the primary barriers that the MFP seeks to overcome.

3. Consider the needs of smaller C&I buyers

A deep understanding of buyer preferences would help inform how the MFP is designed. Our experience in multiple PPA transactions indicates that buyer preferences with annual loads of 2-40GW can be summarised as:

- The use of derivative accounting, and unwillingness for exposure to wholesale energy market risk essentially precludes offers based on 'contracts for difference' (CFD)
- Buyers prefer that a retailer manages any risks associated with the development of new generation and/or connection to the grid
- The PPA price should be lower or equal to existing energy contracts
- Expert advisors are required to provide pricing forecasts over the entire contracting period
- The arrangements must allow for provision and retirement of Large Generation Certificates (LGC) to underpin any associated claims regarding emissions reductions and additionality

4. Core elements of a successful 'service'

A key challenge facing the expansion of the PPA market is that the required technical skills and knowledge typically resides in specialist consulting firms with fees structures that make the

recruitment and capacity building of businesses cost prohibitive. This distortion in the market means that Government support is required to ensure the facilitation services can be provided to buyers at competitive prices.

It is our strongly held view that direct engagement support and facilitation of business decision making is critical for the MFP to be successful. While features such as information, guides, templates, data and research, and a database of projects, experts, and advisors are valuable, an MFP would be unlikely to meet the needs of C&I businesses, or lead to PPA demand of a scale necessary to fill the pipeline of generation projects, unless it provides a pathway for buyer aggregation and facilitation. Recognising that businesses outside the top 100 largest energy users are unlikely to have the in-house capability to navigate a transaction process, aggregation and facilitation must form part of the solution.

5. Pathways for service implementation

We recommend the Victorian Government consider the following approach for establishing the service:

- Incentives to support the creation of facilitation service provider/s, including resourcing to underwrite costs of service delivery. It is reasonable that some facilitation service costs should also be borne by buyers themselves, so that the value of facilitation is transparent and appropriately recognised in the marketplace. Over time (ie. over 1-3 deals), the financial support from government to the approved facilitator(s) could decrease, while buyer contributions increase; recognising that facilitators can be expected to become more efficient and effective with each transaction (as was the case from MREP1 to MREP2).
- We also suggest the funding model for facilitators be designed with progress payments corresponding to group governance and transaction milestones, so as to ensure facilitators are incentivized to invest effort in the Group's success, while disincentivizing fee structures that do not serve interests of buyers. These include brokerage fees and trailing commissions which erode the value of the PPA for buyers, and would undermine the credibility of the facilitation model.
- A selection process should be established for prospective organisations to become 'approved' facilitators. Prospective approved facilitators to be assessed on pre-agreed eligibility criteria including capability and experience, public interest focus (eg. private or for purpose: industry association, council, NGO, etc), lump sum or schedule or rates, and proposed facilitation model / methodology. This could take the form of a supplier panel, similar to other Victorian Government initiatives, such as the Greener Government Buildings program.
- We note that the Department of Treasury and Finance already runs a program for training and accrediting investment management facilitators and suggest that such a program could be leveraged to ensure MFP approved facilitators are appropriately vetted and qualified. Such accreditation would enhance facilitator capability and build buyer trust in MFP – both of which are critical ingredients for a successful group PPA process.
- In addition to establishing a facilitator approval process, the MFP facilitation service should be developed to include resources and insights that local government representatives have developed through the course of MREP and VECO deals. Tangible resources include MOU's, tender specifications, procurement plans, group evaluation procedures, and Participant Agreements, which could all be adapted into templates for prospective facilitators. Similarly, insights related to managing group dynamics, collective decision-making, and other diverse facilitation functions could be provided. Involving individuals with experience in group PPAs would build facilitator capability and reduce the risk of deals falling over due to inadequate facilitation. An approach to facilitator approval that enables different types of facilitation providers as appropriate for different aggregation models (lead customer, regional grouping, industry association, third party – for profit and not for profit, or new models). The approach should allow for 'lead customers' to access resources, thereby encouraging lead buyer facilitation models such as MREP and VECO.

- A directory for facilitators to promote services, find buyers, and bring together groups of buyers with aligned preferences.

A number of complementary measures should be adopted to support facilitation service establishment:

- Stimulate the supply side of the market by engaging with retailers
 - The retail PPA market is relatively immature and PPA offers are historically bespoke in nature. Based on previous PPA tendering processes, there are approximately twelve retailers offering PPAs in the Victorian market, each with their own specific offer characteristics and commercial key terms. These characteristics and terms will often be a key determinant of its suitability for a particular buyer, based on their risk profile.
 - Retailers should be engaged to develop more standardized and 'off the shelf' contractual arrangements and commercial key terms that can be shared with prospective buyers before tendering processes are initiated. This will aid in managing expectations from the outset, expedite 'match-making' between buyers and sellers and create efficiencies in transactions processes.
- Pathways for aggregators and channel partners to stimulate demand
 - Opportunities and support for aggregators (industry associations, anchor buyers, etc) to initiate buying groups and find group facilitators
 - Councils have extensive networks and existing relationships with businesses across the State and should be supported and resourced to recruit a 'pipeline' of interested business via their economic development teams
 - Collateral and resourcing to enable for-purpose organisations, such as industry associations, regional associations, and local governments, to promote PPAs opportunities to their stakeholders, and drive C&I buyers towards the MFP - and through to aggregation and facilitation support. Such engagement would help stimulate buyer side demand and interest in the MFP, and help create demand from prospective buyers
- Pathways for buyers to join group deals
 - A directory for buyers to find facilitators, as well as other expert advisors (energy, legal).
 - Platform to enable registrations of interest, collect data to profile businesses (load size and shape, supply contract end date, business drivers, sustainability commitments, etc), and PPA product preferences (wholesale, retail, tenure, etc).
 - Preferences to be collected and made available to 'approved' facilitators to assist formation of aligned buyers groups

6. Extend and enhance the Business Renewables Centre

The Business Renewables Centre Australia (BRC-A) – which was seeded with funds from the Victorian Government - provides extensive resources, information, educational support, and does so extremely well. BRC-A has been operating for a number of years and has undoubtedly enhanced industry capability (buyer, retailer / developer, advisors) to transact PPAs.

Many of the elements of the MFP outlined in the consultation paper – such as information, templates, and a marketplace – are offerings that are already very well provided by the BRC-A.

The Marketplace element of the BRC-A's portal, which seeks to connect corporate buyers with developers and retailers houses an extensive listing of projects and contact details to enable buyers

and sellers to connect. Considering the array of quality resources the BRC-A provides, we question why the Victorian Government would seek to duplicate this successful and respected program and establish what appears to be a competing offering.

Rather than potentially duplicating effort and competing with the BRC-A, we recommend the Victorian Government look to extend and enhance the BRC-A with funding to support its continued operations, and invest in its expansion with Victoria-specific content and service offerings.

If you have any questions or queries relating to this letter, please contact Scott McKenry, EAGA Executive Officer, on scott.mckenry@maroondah.vic.gov.au or 03 9298 4250.

Yours sincerely,



Cr Marijke Graham
Executive Committee Chair
Eastern Alliance for Greenhouse Action
Councillor, Maroondah City Council



This submission has been approved through EAGA's formal governance structure as described in the EAGA Memorandum of Understanding 2021-25. The submission may not have been formally considered by individual member councils.