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Mr John Brak  
CEO  
**Regional Council of Goyder**  
1 Market Square  
Burra  
SA, 5417

Friday, 17<sup>th</sup> December 2010

Dear John,

### **New Development Application for an Expanded Willogoleche Wind Farm**

On behalf of Willogoleche Power Pty Limited, a wholly owned subsidiary in the International Power Australia group, we have mailed to you today a Development Application Form for an expanded Willogoleche Wind Farm, and all associated documentation and third party reports necessary to support it.

The forthcoming Application seeks provisional development plan consent for a new configuration of Willogoleche Wind Farm. This proposal differs from the existing, approved Willogoleche wind farm in two key respects:

- the number of turbines is to be increased from the existing 26 locations to 37 (ie. up to 11 new turbines); and
- the maximum blade tip height is to be increased from 130 metres to 152 metres. This remains below the CASA 500 foot airspace corridor, thereby not requiring night lighting under current guidelines.

The reports in support of our application address ecology, heritage, electromagnetic interference and aviation, noise, landscape and public consultation. Also included is a DVD used at our recent community consultation day in Hallett, which visually portrays how the expanded (37-turbine) Willogoleche Wind Farm compares with the existing approved 26-turbine project. One outstanding report that will be provided in January is the Visual Impact Assessment being finalised by Swanbury Penglasse. In addition, a response from the Federal Government regarding their EPBC determination is also expected during January.

The proposed expanded Willogoleche Wind Farm remains within the same land titles as for the existing approved wind farm.

Wind turbine technology is constantly improving and over the past twelve months the majority of manufacturers have released a new range of land based turbines that have larger rotor diameters and increased electrical capacity. All of these changes are designed to achieve much higher energy yields

for wind farms. This significant change in technology options allows for improved scale economics, which is particularly important with increasingly expensive grid connection costs, difficult project finance conditions, and lower than expected energy prices being experienced in Australia, all of which have hampered many renewable energy projects within Australia in the past few years.

We would also like to request a development authorisation which has up to seven (7) years for project completion, and up to five (5) years for substantial commencement on site, allowing for the project to be phased (if necessary) to cater for market fluctuations, long lead times for transmission connection modelling and construction, and the potentially lengthier lead times for turbine delivery and financing activities. In support of this request, we point out that in 2008 International Power Australia was granted development approval for the expansion of Pelican Point power station in South Australia, which allows us 10 years for project completion.

Similarly, within Victoria it is now common for councils and planning panels to grant planning permits for wind farm projects which allow for substantial commencement to occur 5 years from the date of the permit being granted, and a further 2 years to complete construction (consistent with IPRA's planning permit for Winchelsea Wind Farm issued by the Surf Coast Shire in Victoria). These timelines recognise the variable nature of the electricity and renewable energy markets along with of the extended time necessary to achieve financial close for large infrastructure construction projects in Australia. Further information regarding the history and dynamics of the Federal Government's Renewable Energy Target is provided in Annexure 1.

International Power is therefore requesting a seven (7) year development approval, which reflects the nature of large infrastructure projects and investment cycles within the electricity and renewable energy market. While we understand this request may be considered unusual within the Regional Council of Goyder, we believe there is sound rationale for this request. More detailed information on this issue can you provided (if required), and we would welcome the opportunity to discuss this further with the council. If a briefing on the status of electricity and renewable energy market would be helpful, we would be comfortable to provide this at your request.

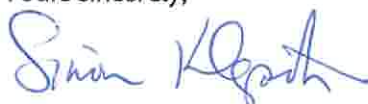
We recognise that the Christmas period will soon be upon us and that the council will consider waiting until the end of January before starting the public consultation process. International Power Australia confirms that this is acceptable and we understand the rationale for this.

Feedback from the Federal Government on EPBC issues regarding native grasses is expected early in 2011. However, any issues in this regard are only expected to have an impact on which final turbine locations are used as we are attempting to minimise impact on listed species communities that have been identified.

Our team will be available to answer questions and/or make presentations to the Regional Council of Goyder and representatives at your convenience.

Please do not hesitate to contact me during the assessment process if you require additional information or clarification, either on 03 9617 8315, or mobile 0419 875 498, or email [simon.klapish@ipplc.com.au](mailto:simon.klapish@ipplc.com.au).

Yours sincerely,



Simon Klapish  
Business Development Manager

## **Annexure 1 – History and current renewable energy market dynamics**

The following overview of the Renewable Energy Target is provided to give some context to the request for a seven (7) year development approval timetable to project completion. While it is expected that the project will be completed well within this period, IPRA is requesting a practical time period to commit to the development given the market dynamics relating to large infrastructure projects of this nature.

The Regional Council of Goyder area has three completed wind farms and two under construction. The council and the local public would therefore wonder why a proponent would seek a 7 year development approval. The Federal Government renewable energy scheme has had a number of stops and starts in terms of encouraging investment in renewable energy generation, (predominantly wind farms), and the following is an overview of the history and current issues with the scheme and how it now impacts on future investment.

### History and current renewable energy market dynamics

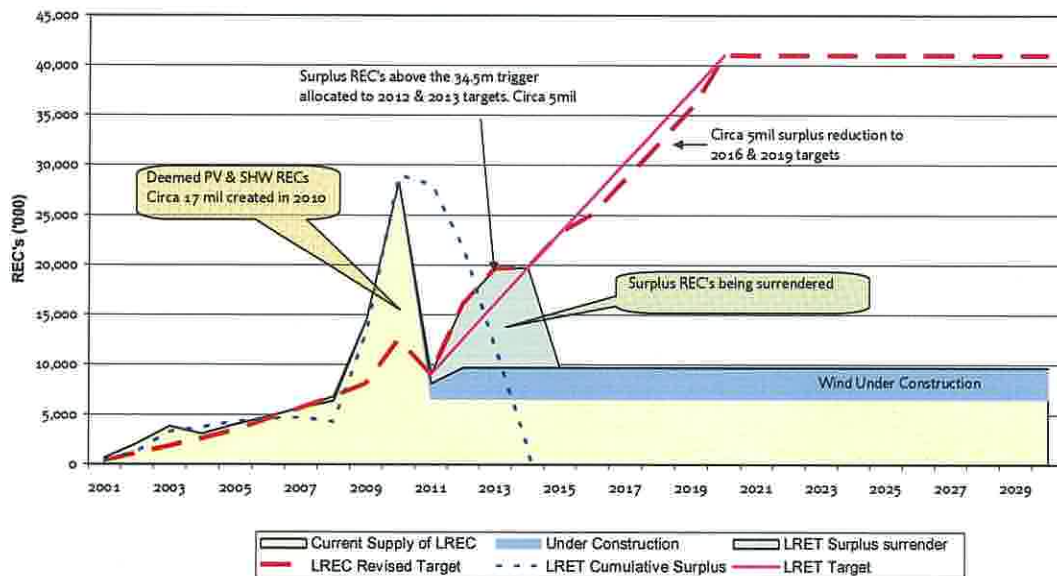
- The Federal Government first introduced the Mandated Renewable Energy Target scheme (MRET) in 2001, to increase the proportion of renewable energy consumption in Australia to approximately 2% by 2010.
- Retailers were required to surrender sufficient Renewable Energy Certificates (RECs) to satisfy their liability. Retailers were commercially encouraged to participate in the scheme by means of penalty pricing for the percentage of REC's not surrendered. The penalty price was set at \$40 per REC pre tax. To mitigate their REC liability Retailers entered into long term "Power Purchase Agreements" (PPA's) with wind farm developers, effectively under writing wind farm incomes. Local and international banks were satisfied that the output of the wind farms, were backed by creditworthy Retailers, sufficient to secure long term debt financing. Many renewable energy projects were built, including International Power's Canunda Wind Farm in South Australia.
- Within a few short years wind farm investment started to slow as the 2% target was approached and, as the price of REC's rose the existing hydro-electric plants flexed their production ability to take advantage of the slightly higher prices, effectively shutting out new projects.
- In 2007 the Federal Government increased the MRET to 20% by 2020 and rebadged it as the Renewable Energy Target (RET).
- Up until this time Retailers had avoided direct investment in wind farms to mitigate their REC liability.
- From 2007 a multitude of State and Federal schemes were introduced to encourage the uptake of domestic solar boosted hot water and solar photovoltaic (PV) systems. The Government schemes introduced ranged from direct capital grants to rebates, and to overly generous feed-in-tariffs (NSW). These schemes overstimulated the domestic market and flooded the renewable energy market with deemed REC's. e.g. a 1.5kW domestic PV system is deemed to produce 5 times more RECs than they can produce over a 15 year lifetime (Circa 200 REC's per installation).
- In 2010 the legislation was amended again to deal with the obvious growing surplus of certificates and to split the two main creators of REC's; Small scale and Large scale projects.
- As of 1<sup>st</sup> January 2011 the 'enhanced' RET scheme is split into Large-scale (LRET) such as wind farms, and Small-scale (SRES) such as domestic solar PV systems. The aim is to make sure that neither large nor small scale renewable schemes crowd each other out. Retailers must surrender their deemed percentage of the LRET each year, growing to 20% of consumption by 2020 or face a \$65 per REC penalty fee.
- As a result of the significant REC over supply in 2009 and 2010 the number of surplus REC's is approaching 40 million (only 12.5mil need to be surrendered for 2010). It is estimated that the surplus and ongoing existing production of REC's will satisfy the Retailers' requirements until the

end of 2014. Effectively this will suppress the price of REC's below the cost of production well into the 2013/2014 period. It is envisaged therefore that unless further changes are made to the RET scheme, the earliest that a new windfarm will aim to reach its commissioning stage would be towards the end of 2014.

The following charts show the REC supply market, and price history, which are key to wind farm investment. We would be happy to explain these complex issues with the Council if you would like. The key point is the excess RECs in the market, which pushes out the need for new wind farms 'coming on line' until 2013 - 2015 (green area of the graph).

**Chart 1: Quantity of RECs in the Australian market, 2001 to 2030**

Chart 1: RECs in Market 2001-2030



**Chart 2: REC Price History, 2005 to December 2010**

(Note that the REC Penalty price is \$65, and the current market price is \$29)

