

29 October 2010

Committee Secretary
Select Committee on the Scrutiny of New Taxes
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

newtaxes@aph.gov.au

Dear Sir / Madam

Re: Inquiry into Carbon Tax Pricing Mechanisms

Thank you for the opportunity to respond to the Select Committee on the impacts and considerations of introducing a carbon pricing mechanism in Australia. As the largest generator of renewable energy in Australia and as a participant in the National Electricity Market (NEM) Carbon Pricing is a significant issue for Hydro Tasmania.

Climate change presents a physical business risk to Hydro Tasmania. As a predominantly hydropower and wind generator, Hydro Tasmania is particularly vulnerable to changes in rainfall, temperature and wind speeds that may occur as a result of climate change. To address anthropogenic climate change Australia must contribute to meaningful action and place a price on carbon, ensuring immediate economic transition to a lower carbon economy.

Hydro Tasmania believes a cap and trade Emissions Trading Scheme (ETS) is eminently preferable over other abatement strategies. In the short-term, however, there may be opportunity to bring forward investment certainty through interim measures such as a fixed carbon price or carbon tax. It could also be appropriate to start with a sector specific approach, for example initially based around Australia's stationary energy sector. Such interim measures should be considered in the context of facilitating the ultimate goal of implementing a national, economy wide and internationally linked ETS, together with the implications of the transition from an interim measure to an ETS.

Hydro Tasmania's submission to the Select Committee's Inquiry is included as Attachment 1. Our submission focuses on the key Terms of Reference most relevant to Hydro Tasmania.

We welcome the opportunity to provide the Select Committee with further information about the contents of this submission or any other issues. Should you have any queries or require further information, please contact Mr Alex Beckitt (email: alex.beckitt@hydro.com.au or telephone: 03 6230 5249)

Yours faithfully

Roy Adair
CEO Hydro Tasmania

Attachment 1

Hydro Tasmania Submission

Senate Select Committee on the Scrutiny of New Taxes

Information about the Inquiry

On 30 September 2010 the Senate referred the following matter to the Select Committee on New Taxes for inquiry and report.

- (a) new taxes proposed for Australia, including:
 - (i) the minerals resource rent tax and expanded petroleum resource rent tax,
 - (ii) a carbon tax, or any other mechanism to put a price on carbon, and
 - (iii) any other new taxes proposed by Government, including significant changes to existing tax arrangements;
- (b) the short and long term impact of those new taxes on the economy, industry, trade, jobs, investment, the cost of living, electricity prices and the Federation;
- (c) estimated revenue from those new taxes and any related spending commitments;
- (d) the likely effectiveness of these taxes and related policies in achieving their stated policy objectives;
- (e) any administrative implementation issues at a Commonwealth, state and territory level;
- (f) an international comparison of relevant taxation arrangements;
- (g) alternatives to any proposed new taxes, including direct action alternatives; and
- (h) any other related matter.

Specific Responses to Terms of Reference:

In responding to the Terms of Reference, Hydro Tasmania has given consideration to those areas most relevant to our business as a NEM participant and renewable energy generator/developer.

(a)(ii) - a carbon tax, or any other mechanism to put a price on carbon

AND

(d) the likely effectiveness of these taxes and related policies in achieving their stated policy objectives;

Hydro Tasmania supports the implementation of a carbon price as the basis of Australia's long-term response to climate change. A carbon price will be vital to reduce Australia's greenhouse gas emissions and to provide long-term certainty for investors in low and zero emissions technologies. Hydro Tasmania recognises the various merits of carbon taxes, fixed price mechanisms, baseline and credit and sector specific approaches (including hybrid proposals), and believes that these warrant consideration as transitional measures. However, our preferred approach is for the implementation of a carbon price to be achieved through the adoption of a market mechanism such as an Emissions Trading Scheme (ETS). Australia's electricity industry supports the introduction of a well designed ETS.

The benefits of a cap and trade ETS approach over other designs have been well established internationally and within Australia (such as through the 2008 Garnaut Review). Hydro Tasmania supports a scheme design that ensures the full cost of carbon is reflected in all investment decisions as soon as practically possible, providing investment certainty and a long-term emissions reduction pathway for Australia. This should be the primary objective of an effective carbon price.

Hydro Tasmania believes that a cap and trade ETS is preferable over other abatement strategies because it:

- will allow long-term emissions targets to be set, providing environmental certainty;
- is consistent with current international developments and through the setting of emissions caps will drive international agreement and action on climate change;
 - ETS will facilitate linking opportunities with common tradeable units and provide greater choice in abatement options such as international credits (e.g. CDM) and domestic offsets (e.g. forestry) leading to maximum economic efficiency;
- is a transparent mechanism by which the market will set the price of carbon in relation to the supply of, and demand for permits in the market;
 - an emissions tax may be more arbitrary as the carbon price will be set by Government and is likely to require ongoing intervention;
- will raise revenue through the sale of emissions permits which can be used to assist vulnerable households and sectors adjust to the introduction of carbon pricing; and
- is responsive to economic conditions, for example a slowdown in general economic conditions will lead to a softening of carbon prices, offering a significant advantage over a carbon tax.

It is clear that other carbon pricing options such as a Carbon Tax could achieve many of the principles above and may also have advantages in terms of simplicity. Nonetheless and on balance, Hydro Tasmania believes that a market mechanism such as an ETS provides the greatest opportunity to reduce Australia's long-term emissions while achieving least cost abatement across the economy and providing certainty for investors.

(b) the short and long term impact of those new taxes on the economy, industry, trade, jobs, investment, the cost of living, electricity prices and the Federation;

Hydro Tasmania fundamentally believes that the long-term costs of climate change inaction will outweigh the costs of action. This has been demonstrated with reference to Australia through the Garnaut Review 2008. This consideration needs to underpin any understanding and discussion of the costs and impacts of new carbon pricing measures. Nevertheless, Hydro Tasmania interprets the specific terms of reference of this inquiry to be in relation to the effect of new carbon pricing mechanisms on the domestic economy against a business as usual economic projection that does not include increased costs from Climate Change.

By design an emissions trading scheme will raise the cost of emissions intensive goods and services including electricity. As a result an important aspect of a well designed emissions trading scheme is that revenue raised through the sale of emissions permits be used to compensate households and industry for increased costs. This is particularly important in the initial stages of an emissions trading scheme. The Garnaut Review final report recommended that:

Actual revenue from permit sales would be allocated either as payments to households (about 50 per cent), as support for research, development and commercialisation of new technologies (about 20 per cent).....or to business as credits for trade-exposed activities or as cuts in taxes (about 30 per cent). (Garnaut Review 2008)

Further:

The introductory impact of the Australian emissions trading scheme will not be inflationary if permit revenue is used judiciously to compensate households. (Garnaut 2008)

In addition it should be recognised that the transition to a low emissions economy will also create economic opportunity through the development and deployment of new low and zero emissions technology solutions. As a renewable energy developer and through our 50:50 Joint Venture company Roaring 40s, Hydro Tasmania has a significant renewable energy investment pipeline. This includes the \$400 million Musselroe wind farm in Tasmania's North East which will create up to 100 jobs during construction. As a result the consideration of new carbon pricing mechanisms by the Committee should also take into account the economic opportunities that can be created through such measures.

(e) any administrative implementation issues at a Commonwealth, state and territory level;

Hydro Tasmania supports a nationally consistent approach to carbon pricing.

(g) alternatives to any proposed new taxes, including direct action alternatives; and

Hydro Tasmania supports all efforts to reduce Australia's carbon emissions. Complementary measures including direct action should be considered in Australia's climate change response. In particular these approaches may work best in sectors such as agriculture which are less easily captured through a carbon pricing mechanism. Nonetheless, Hydro Tasmania supports a price on emissions as the primary long-term mechanism to reduce emissions particularly in sectors such as stationary energy.

Other complementary measures will also be essential to drive deployment of readily available solutions such as renewable energy and the research and development of emerging low emissions technologies. Hydro Tasmania strongly supports existing policies such as the national Renewable Energy Target (RET) and various fiscal measures such as the Renewable Energy Demonstration Program (REDP).