20 May 2010

Senate Environment, Communications and the Arts Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Madam/Sir

Re: Submission to Inquiry into Renewable Energy (Electricity) Amendment Bill 2010

Pacific Hydro welcomes the opportunity to provide the following submission to the Environment, Communications and the Arts Legislation Committee on the enhanced Renewable Energy Target (RET).

Pacific Hydro is one of Australia's leading clean energy developers and is 100% owned by five million Australian superannuants through Industry Funds Management. With approximately 450MW of renewable energy projects operating in Australia, Chile, Brazil and the Philippines we have a very strong track record of development and delivery of clean energy projects. In addition we have another 300MW in construction or commissioning across our three core markets. The bulk of this is in Chile and Brazil, where the company is involved in $2 billion of investment in clean energy generation on the back of strong domestic policy and carbon pricing through the Clean Development Mechanism of the Kyoto Protocol.

Pacific Hydro very strongly supports the enhanced RET and believes that the separation of the large and small scale markets provides the certainty required for both sides of the market to continue to grow in Australia. Importantly, it provides this support at very low cost. Modelling undertaken for the Clean Energy Council by ROAM Consulting shows that at the peak of the scheme's impact, the Large-scale RET (LRET) and Small-scale Renewable Energy Scheme (SRES) combined will add between $1.49 and $2.20 a week onto householders' bills, and by 2020 will comprise only 6% of the average electricity bill. This is in comparison to earlier modelling by ROAM on the legislated RET, which found the scheme cost between $1.54 and $2.26 at its peak. The enhanced RET is therefore cheaper to deliver than the already legislated RET, due to a reduction in large-scale generation required under the LRET and the fixed lower price of SRECs.

It is vital for the industry that the enhanced RET is now legislated without any further delay. The industry sits poised to invest approximately $25 billion in clean energy projects beginning from the second half of this year, and create 26,000 jobs over the life of the scheme[1], but cannot do this without the certainty of the Bill being enshrined in legislation. We therefore call on both parties to ensure the swift passage of this Bill through Parliament within the winter sittings.

However Pacific Hydro is concerned that two design features of the LRET will initially oversupply the market and undermine its ability to effectively support large-scale project development:

1. The ability to retire the complete bank of deemed RECs created prior to 1 January 2011 into the LRET; and
2. Allowing deemed RECs from pre-existing contracts eligibility under the LRET.

[1] In combination with existing energy efficiency policy

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Given that the intent of the enhanced RET is to create separate incentives for small and large-scale renewables, and support the immediate development of large scale renewable projects, it would be very unfortunate if the transitional arrangements were to undermine that main objective.

The ability to bank deemed RECs for retirement in the LRET is expected to create an oversupply of approximately 23 million RECs by the end of 2010[2]. With this unprecedented surplus, no new investment in large scale renewable energy capacity will be required to meet liability before 2014.

Pacific Hydro cannot reliably estimate the quantity of deemed RECs from pre-existing contracts which would be available to meet LRET liability in the first few years, however expects that it could easily exceed two million RECs per year. If this is the case it could push out the need for new sources of RECs until 2015.

There is therefore a significant residual risk that investment in large-scale projects will remain stymied until such time as the oversupply is reduced. Based on a two year delivery time for new projects (which is currently very conservative) there is no need to start investment in new projects until at least 2012, and possibly 2013 depending on the volume of pre-existing contracts.

Pacific Hydro therefore recommends that the LRET trajectory is altered in the early years of the scheme to more promptly create demand for new projects and ensure early investment under the LRET to reinvigorate the industry. Our recommended target adjustments are outlined in Table 1.

Table 1. Recommended revised trajectory

Year	LRET Target (GWh)	Pacific Hydro Recommended Target (GWh)
2011	10,400	14,200
2012	12,300	14,200
2013	14,200	14,200

Pacific Hydro expects the revised trajectory to reduce the impact of the oversupply of RECs in the first two years of the scheme and promote immediate investment in large-scale projects.

In addition, in the event that two million deemed RECs per year were available to the LRET from pre-existing contracts, altering the trajectory reduces the risk of massive oversupply and creates a more reliable investment market ensuring new projects can be committed to in 2010.

To further limit the potential for pre-existing contracts to cause an initial oversupply in the LRET scheme, Pacific Hydro recommends the following criteria be introduced for participating pre-existing contracts:

1. The contract must explicitly refer to deemed RECs.
2. The contract is unconditional and does not include open-ended timing or contain options for extension beyond the transition period of end 2012. If contracts which are open-ended or contain options are eligible the large-scale target will remain highly exposed to distortions from small-scale incentives that the Enhanced RET sought to eliminate.

[2] Green Energy Markets, Monthly REC Review, April 2010

3. The contract is for fixed quantities of RECs with fixed delivery dates up to 31 December 2012.
4. The contract must have fixed prices (i.e. market-based price formulas would not qualify, as the method of determining the price in SREC/LREC split market may be problematic).

In addition, we note that the legislation contains no mechanism to increase the LRET in the event that the SRES does not deliver at least 4000GWh per annum in order for the enhanced RET to meet the 45,000GWh per year target in 2020 and beyond. This is an important commitment which was made by the government on announcement of the enhanced RET amendments, as without it the scheme may fall short of the original purpose of the legislation, which is to provide 20% of Australia's electricity from renewable energy sources by 2020.

In recommending changes to the enhanced RET however Pacific Hydro continues to advocate for swift passage of the legislation through Parliament in the winter sittings of 2010.

Pacific Hydro would welcome the opportunity to present our analysis herein to the Committee.

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Yours sincerely

Rob Grant
Chief Executive Officer