



Hydro Tasmania
the renewable energy business

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

economics.sen@aph.gov.au

24 March 2009

Dear Sir or Madam

Re: Submission to the Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme

Thank you for the opportunity to respond to the Senate Standing Committee on Economics Inquiry into the exposure drafts of the legislation to implement the Carbon Pollution Reduction Scheme. Hydro Tasmania notes that: *Submissions to this inquiry should concentrate on the exposure draft legislation and the Carbon Pollution Reduction Scheme. Submissions about climate change policy more generally may be better directed to the separate inquiry by the Senate Select Committee on Climate Policy.*

Hydro Tasmania is the largest renewable energy generator in Australia, and is internationally recognised for its expertise in renewable energy. Hydro Tasmania continues to make a major contribution to the production and growth of renewable energy and reduction of greenhouse gas emissions, including through global wind energy developer Roaring 40s (a joint venture company between Hydro Tasmania and China Light and Power) and with a Consulting business providing expertise internationally.

Hydro Tasmania can make an important contribution to Australia's emission reduction goals and has a number of renewable projects waiting to be deployed. This project pipeline includes wind farms, mini-hydro, and system enhancement opportunities. Hydro Tasmania is also involved in proving and deploying new renewable energy solutions such as: energy storage, system integration and diesel replacement solutions.

The introduction of a carbon price through the CPRS along with other complementary measures will drive investment in and deployment of low and

zero emissions technologies and can ensure the maintenance and upgrade of existing resources.

Hydro Tasmania supports the Government's commitment to implementing a Carbon Pollution Reduction Scheme (CPRS) and broadly supports the design features outlined in the White Paper and exposure draft legislation. Delaying action will increase the costs of meeting future emissions reduction targets. In recognition of this, 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 the CPRS. A summary of Hydro Tasmania's high-level policy positions with respect to the CPRS Green and White Papers are outlined in Attachment B.

The release of the CPRS draft legislation provides Australian industry with greater clarity over the workings of the scheme and reaffirms the Government's commitment to tackling Climate Change. In particular, Hydro Tasmania welcomes the confirmation that:

- the CPRS will be designed to start on 1 July 2010;
- the target will be for an emissions reduction of between 5% and 15% below 2000 levels by 2020;
- the 2050 target is for a 60% cut in emissions below 2000 levels; and
- liable entities carrying permit shortfalls will need to 'make-good' their shortfall. This will preserve the environmental integrity of the scheme.

While Hydro Tasmania has not in the time available undertaken an extensive legal review, there are some aspects of the draft legislation for which we seek clarification. These are outlined in Attachment A.

We welcome the opportunity to provide the Department of Climate Change 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, Manager Strategic Policy (email: alex.beckitt@hydro.com.au or phone: 03 6230 5249) or Mr Colin Wain, Policy Analyst (email colin.wain@hydro.com.au or phone 03 6230 5661).

Yours faithfully



Andrew Catchpole
General Manager
Communications & External Relations

Attachment A

(not in any order of priority)

Hydro Tasmania makes the following observations on the current draft legislation, noting at this stage that an extensive legal review has not been undertaken by our business.

- **Section 15 - National scheme gateway**

Section 15 does not appear to contain information on the length of gateways to be set.

Subsection 3 of Section 15 (National Scheme Cap) also creates uncertainty, as it suggests that the cap may be set outside of that national target range but, for example, does not appear to give further details of how much warning must be given for this to occur. While we appreciate the intention of the drafting, Hydro Tasmania believes there may be opportunity to provide greater clarity through the development of regulations and associated policies.

- **Section 130 – Unit shortfalls, Section 133 – Penalty for Unit Shortfall**

Sections 130 to 133 do not appear to provide adequate information on the workings of unit shortfalls and the associated penalties. Specifically, the interactions of the penalty for unit shortfall, the person's make good number, and the 5% borrowing limit on future vintage permits are unclear.

Hydro Tasmania notes and welcomes the CPRS 'commentary' document from the Department of Climate Change website, without this explanatory information, the legislation and/or regulations need to be clarified.

- **Recognition of additional voluntary action**

Hydro Tasmania believes that the purchase and consumption of renewable energy by an individual or company provides distinct benefits to society. The CPRS must recognise, preserve and enhance the incentive for leading businesses to take additional voluntary action on greenhouse gas abatement. The draft legislation provides no recognition of voluntary action under the CPRS in the present but does allow for the setting of future caps to include provision for such action.

Hydro Tasmania believes the CPRS and accompanying policy instruments (e.g. National Greenhouse Energy Reporting System and National Carbon Offset Standard) must provide a mechanism by which the abatement associated with voluntary action can have a direct effect on supply of permits under the cap. For example, the purchase of additional renewable energy through GreenPower could be converted into t/CO₂-e avoided and CPRS permits retired accordingly.

Attachment B

Hydro Tasmania's key positions on the CPRS are as follows:

- If Australia is to have a meaningful response to the climate change imperative, the full environmental and social cost of carbon must be recognised.
- Hydro Tasmania recognises that delaying action on climate change will increase costs.
- A CPRS with a strong cap is essential to deploy least cost abatement options immediately. Hydro Tasmania broadly agrees with the CPRS design elements proposed in the White Paper.
- The national targets and gateways should be set as soon as possible with a minimum of 15 years of indicative targets needed for industry certainty.
- Hydro Tasmania supports full banking of permits under the CPRS. Very limited borrowing should be permitted but only to the extent that it allows for balancing of any administrative oversight of liability.
- A price cap is unnecessary when considered in the context of other design features including international linkages. Hydro Tasmania believes that the scheme shortfall penalty should be set sufficiently high above the marginal cost of emissions abatement so that it is very unlikely to be met.
- Hydro Tasmania supports the Government's proposed recycling of auction revenue to households and businesses and cites the research, development, commercialisation and export of low and zero emissions technologies as a key area where greater funding is required. Revenue should also be targeted at overcoming infrastructure impediments such as electricity transmission.

On complementary measures and renewable energy:

- A Renewable Energy Target (RET) is essential to support the immediate deployment of least cost renewable energy technology until the full cost of carbon is reflected in the wholesale electricity market. This is essential to meet the Government's emission reduction objectives.
- The purchase and consumption of renewable energy by an individual or company provides distinct benefits to society. Voluntary purchase of products such as GreenPower should be recognised under the CPRS. Additionally, there is an impediment to encouraging entities to undertake additional voluntary action – in particular:

- The current design of NGERS does not empower companies to reduce their (Scope 2) emissions attributed to electricity consumption. This methodology does not accommodate the fact that a business may be sourcing some/all of their electricity from renewable sources (the businesses own generator, purchased Green Power or contracted zero emission energy). In calculating emissions from consumed electricity NGERS simply applies the State average emissions factor for all electricity consumed.
- This is a serious limitation of NGERS accounting methodology. Clearly NGERS would need to address any associated greenhouse accounting issues and also require entities to disclose some possibly sensitive contractual information for this issue to be fully addressed.