

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

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4 June 2009

Dear Sir or Madam

Re: Changes to the CPRS announced on 4 May 2009

Thank you for the opportunity to respond to the Senate Economics Committee inquiry into the CPRS legislation. This submission will focus on the changes to the CPRS announced on 4 May 2009. Hydro Tasmania has previously made submissions on the CPRS legislation to the Economics Committee, the Select Committee on Climate Policy and the Commonwealth Department of Climate Change.

Hydro Tasmania is the largest generator of renewable energy 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 wind developer Roaring 40s (a joint venture company between Hydro Tasmania and China Light and Power) and with a Consulting business providing expertise internationally.

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 renewable energy assets. 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. Hydro Tasmania's key positions on the CPRS are summarised as Attachment 1.

The changes announced on 4 May will delay the introduction of a clear price signal to encourage investment in low emission technologies such as renewable energy. In summary, Hydro Tasmania makes the following comments which are discussed in more detail later in this submission:

- Key elements of the CPRS for the renewables industry are the start date and cap. The changes announced on 4 May offer no further certainty on these key issues;
- A delay to the start date has the simple effect of delaying commitments to low emissions investments;
- The changes announced further strengthen the case for the immediate introduction of complementary measures including the expanded Renewable Energy Target (RET);
- Hydro Tasmania does not support the \$10 fixed price period. If implemented, it should last for a maximum of one year; and
- All GreenPower purchases should be recognised as additional voluntary abatement.

Delaying the start date of the CPRS

Hydro Tasmania has a number of renewable energy projects awaiting deployment including the 1,000GWh program on which Hydro Tasmania presented to the Committee on 24 March 2009 (see Attachment 2). These renewable programs will not proceed without a stable investment environment.

Essentially, the key design features affecting the renewables investment environment are the start date and the cap. While the Government has endeavoured to provide certainty over both of these, having been delayed once, it remains a strong possibility that the CPRS implementation could be delayed further. In practice this means that investments that rely on a carbon price will be delayed indefinitely until there is certainty over the scheme design and that this scheme design will pass the Senate.

Hydro Tasmania understands the political complexities facing Government but offers these comments to illustrate the difficult investment environment in which we are currently operating.

The need for complementary measures

In Hydro Tasmania's view, the effect of the delay to the start of the CPRS further emphasises the importance of the expanded national Renewable Energy Target (RET) in providing certainty for zero emissions investment. The RET must be passed quickly to unlock over \$20 billion of investment in regional and rural Australia.

Similarly, it is essential that investment in pilot projects as well as the research and development of low emissions technologies not be delayed. Hydro Tasmania welcomes the creation of Renewables Australia and looks forward to ongoing dialogue with Government on the further development of Australia's renewable energy industry.

One year fixed price period of \$10

Hydro Tasmania understands the desire to achieve a smooth transition for Australia to emissions trading. Nonetheless, a number of key CPRS design elements – including targeted transitional assistance for key industries – provide for this transition. As a result, the introduction of a \$10 fixed carbon price is not supported. It will not provide the opportunity for Australian businesses to begin the important tasks of trading or managing risks within the CPRS framework, nor aid in the development of a vibrant secondary permit market. Furthermore, this fixed price period is unlikely to be sufficient to incentivise significant abatement projects.

In light of these drawbacks, it is essential that the fixed price period be limited to a maximum of one year, and that full trading, including advanced auctioning, commence as soon as possible.

GreenPower

Hydro Tasmania commends the Government's decision to recognise purchases of GreenPower as additional voluntary abatement. Nonetheless, it is unclear why a baseline of 2009 GreenPower purchases will be established. One of the key drivers for individuals and businesses when purchasing GreenPower is the associated reduction in greenhouse gas emissions through increased deployment of renewable energy. This

driver existed before, and will continue to exist after, the introduction of the CPRS. As a result it is unclear why consumers, who began purchasing GreenPower before 2009 and continue to do so at the same level, should not also have the full environmental benefit of their purchase recognised.

In the event that GreenPower purchases decrease or remain at the same level post-2009 there will be little ongoing abatement incentive for consumers to maintain GreenPower purchases.

Funding to undertake energy efficiency measures (from 1 July 2009)

Hydro Tasmania is already undertaking several programs to identify energy saving opportunities within the business and to increase efficiency. Energy efficiency will play an important role in meeting long-term emissions reduction commitments and as a result we support Government incentives to this effect. Hydro Tasmania looks forward to further information on these measures detailing what defines an eligible business.

Should the Senate Economics Committee have further questions or require further information, please contact Mr Colin Wain, Policy Analyst (email colin.wain@hydro.com.au or phone 03 6230 5661).

Yours faithfully



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Attachment 1 – Key Positions on the CPRS

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.

Attachment 2 – The 1,000GWh Project

Hydro Tasmania created the 1,000 GWh project to investigate the potential to capture an additional 1,000 GWh of energy from its existing hydro-electricity system. This was a response to the reduction in expected generation from the existing system due to the past 30+ years of below expected inflows.

The following enhancements have been targeted:

- catchment diversions and diversion upgrades
- canal maintenance
- turbine runner improvements
- new storages - build small (relative to current) storages to act as regulating storages to capture higher inflows in winter.
- raising existing storages
- mini-hydro schemes
- new power station development or redevelopment of existing power stations

The most prospective 20 projects will produce around 440 gigawatt hours at a cost of \$200 million. Less prospective projects have been identified to make up the remaining 560 gigawatt hours but these will cost close to \$400 million.

The projects will utilise and develop local expertise and skills with construction jobs peaking at approximately 35 FTEs with a further 15FTEs associated with manufacturing the components. Furthermore, developing these opportunities would reduce greenhouse gas emissions by over 350,000 tonnes of CO₂-e per annum.