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Hydro Tasmania
The power of natural thinking

Climate Change Authority
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RE: 2014 Renewable Energy Target Review

On 15 May 2014 Hydro Tasmania made a submission to the Dick Warburton Review of the Renewable Energy Target (RET). We would ask that the Climate Change Authority (CCA) consider that submission[1] during their 2014 Review.

Hydro Tasmania is the largest renewable energy generator in Australia, producing approximately 10,000GWh of renewable energy per annum from our Hydro assets and from the Woolnorth and Musselroe wind farms of which we own 25%[2]. We are an integrated energy business providing retail energy products, consulting services and are a material participant in the National Electricity Market (NEM). The design of Australia's Renewable Energy Target (RET) is fundamental to the value of our business and to our future renewable energy investments.

In addition to our Tasmanian hydropower assets, we own 25% of the Woolnorth and Musselroe wind farms in Northern Tasmania. These wind farms have a combined capacity of 308MW. Hydro Tasmania has a strategic agreement with Shenhua Clean Energy to develop an additional 700MW in Australia and have recently announced an agreement to investigate testing current Chinese wind turbine generator technology in Australia.

In addition to the contents of our May 2014 Warburton Review submission we would like to provide the following supplementary views:

- It is clear that ongoing reviews of the RET have caused investment in large-scale renewable energy to effectively stall. This has occurred from the period prior to the Dick Warburton Panel was announced on 17 February 2014, and in reality dates back to before the 2013 Federal election.

- A bipartisan agreement on the RET is the only circumstance under which Hydro Tasmania can see significant investment in large-scale renewable energy returning.

- If the two major parties cannot reach agreement on an appropriate 2020 LRET GWh target then other approaches will need to be considered. Hydro Tasmania would encourage the CCA to examine alternative models that could assist the Federal Government and the Labor Party during their negotiations.

[1] http://www.hydro.com.au/about-us/news/2014-05/hydro-tasmania%E2%80%99s-submission-review-renewable-energy-target
[2] Hydro Tasmania produces approximately 9000GWh per annum. Woolnorth Wind Farm Holdings, in which Hydro Tasmania is a joint venture partner, produces approximately 1000GWh per annum.

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- Australian electricity generation is highly emissions intensive by world standards, while at the same time electricity is fundamental to every facet of a modern economy. Australia must reduce the emissions intensity of its electricity generation if it is to meet future long-term emissions reduction goals (beyond 2020).

- Hydro Tasmania strongly believes that the RET is complementary to the Government's Direct Action Policy. The RET is currently the only policy capable of making substantial reductions in the emissions intensity of grid-supplied electricity.

- By 2025, 75 per cent of Australia's existing thermal plants will be more than 35 years old. At some point, this coal generation will exit the market and as this happens there needs to be a clear and long-term policy framework that can guide the sector to investment in replacement generation. The solution cannot be to lock in high emissions for future generations by replacing coal-fired generation plants with new, unless the carbon dioxide is removed and sequestered. The RET is currently the only policy that can drive the deployment of zero emissions generation capacity. The CCA should consider how investment in the RET could be appropriately matched to retirement of ageing emissions intensive plant.

- The ACIL-Allen modelling for the Dick Warburton RET Review clearly demonstrated that renewables are not a key driver of recent electricity price increases.
    - Of note is the ACIL-Allen modelling of a 30% by 2030 scenario that actually demonstrated that this policy trajectory was more advantageous for consumers and the environment across a range of factors (including retail electricity prices, abatement and smooth deployment of additional renewable energy).
    - The ACIL-Allen modelling overestimates the GWh contribution from below-baseline generation in an average year. This led to underestimates of the GWh LRET target required to meet a range of percentage outcomes (20% by 2020, 30% by 2030).

In its 2014 review of the RET, Hydro Tasmania believes that the CCA can aid both the Federal Government and Opposition by giving consideration to:

1. **Later Targets** – For example, a LRET trajectory peaking in 2022 or 2025.
2. **Target Extensions** – Shifting the LRET end date beyond 2030 as a way to encourage steady investment.
3. **Providing 15 years of returns** – LRET models that can allow investors an appropriate timeframe over which to recover their investments.
4. **Addressing the current surplus of Large-scale Generation Certificates (LGCs)** – Options that encourage a quick return to investment in, and deployment of, additional renewable energy.
5. **The role of the penalty** – Liable entities electing to pay the penalty instead of investing in additional renewable energy would be a very poor policy outcome. The role of the penalty is to discourage uncompliant behaviour, not to offer liable entities an 'out'. As such, the penalty must be suitably robust both in its level and in its perceived duration that it provides appropriate disincentive. The aim of the RET policy should continue to be least-cost deployment of additional renewable energy. A central aim of the RET must be to meet the designated GWh target at least cost while avoiding instances of hitting the penalty.
6. **Sustainable returns for investors** – Investors in additional large-scale renewable energy will consider the combination of wholesale electricity prices, LGCs and the project risks.

7. **The ability of the RET to replace retiring emissions intensive generation** – Consideration of ageing NEM generation assets and how RET deployment could most appropriately ensure a transition to lower sectoral emissions. Broader energy market needs require than an orderly transition is achieved while maintaining a sustainable wholesale electricity market.

The RET has continued to effectively deliver the legislated GWh target in each and every year of its operation. This has been despite considerable policy uncertainty as well as significant external factors such as the global financial crisis, exchange rate fluctuations and changes in federal and state environmental and planning policies. As noted in the 2013 Administrative Report of the Clean Energy Regulator, the LRET saw a compliance rate of 99.98% against 2013 liabilities.

With respect to Hydro Tasmania, the RET is a key part of our strategic and financial future. We were one of the scheme's original participants and have participated in the scheme since its commencement in 2001. It affects all aspects of our business including through supporting ongoing investment of around $70 million per annum in our pre-1997 hydropower assets, the development of our King Island off grid renewable energy assets and as a key driver of our wind farm portfolio developments.

We welcome the opportunity to provide the CCA 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 Colin Wain, Policy Development Manager (email: colin.wain@hydro.com.au or telephone: 03 6230 5661).

Yours faithfully

Stephen Davy
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Hydro Tasmania