Hydro Tasmania

the renewable energy business

Senate Environment, Communications and the Arts Legislation Committee
PO Box 6100 Parliament House
CANBERRA ACT 2600
eca.sen@aph.gov.au

24 May 2010

Dear Sir or Madam,

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

Thank you for the opportunity to provide input to the inquiry on the Renewable Energy (Electricity) Amendment Bill 2010 [Provisions], Renewable Energy (Electricity) (Charge) Amendment Bill 2010 [Provisions] and the Renewable Energy (Electricity) (Small-scale Technology Shortfall Charge) Bill 2010 [Provisions].

Hydro Tasmania welcomes the Governments proposal to amend the Renewable Energy Target (RET) and provide greater certainty to renewable energy investors. Developing Australia's renewable energy potential is dependent on swift and safe passage of this legislation. We believe that the Amendment Bills will effectively implement the proposed enhancements.

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

The RET is essential to underpin the business cases for Hydro Tasmania's investments in a range of renewable energy projects including modernisation, upgrades and enhancements to existing hydro power stations and new wind developments through Roaring 40s. Hydro Tasmania believes the merits of the RET policy are well established and are outlined in Appendix A.

Hydro Tasmania supports the separation of the existing RET into the (enhanced RET) Small Scale Renewable Energy Scheme (SRES) and the Large Scale Renewable Energy Target (LRET). This should be expected to deliver the policy certainty necessary to achieve the Governments commitment to delivering 20% of Australia's electricity from renewable energy sources by 2020. Most importantly the enhanced RET will ensure that investments in large scale renewable energy projects will be revitalised, and in parallel, ongoing growth in the small scale sector should continue.

Hydro Tasmania has reviewed in detail the legislation and believes the amendments can achieve the stated objectives and provides the necessary certainty for renewable energy project developers. This legislation addresses many of the concerns that Hydro Tasmania previously raised (in response to the March 2010 Discussion Paper) regarding implementation details of the enhanced RET. One issue raised in March relates to the surplus of RECs eligible under the LRET from its commencement. While at this stage we can not be certain about the impact of any initial REC surplus on the LRET, any consideration of this issue should not delay the passage of the legislation.

The massive amount of pent up investment in large scale renewable energy continues to await the legislation of these straightforward amendments necessary to underpin investment. It is therefore encouraging that the RET continues to have strong support from all major Australian political parties, and Hydro Tasmania believes this should result in immediate and expedient passage of these Bills.

Hydro Tasmania would welcome the opportunity to present to the Committee at its upcoming public hearing. Should the Committee have further questions or require further information, please contact Mr Kane Thornton, Senior Advisor Renewable Energy Policy (email kane.thornton@hydro.com.au or phone 03 6230 5661).

Yours faithfully

<Original signed>

David Bowker
Acting General Manager
Communications & External Relations

Hydro-Electric Corporation *4 Elizabeth Street* ***www.hydro.com.au*** *GPO Box 355* *Telephone (03) 6237 3400*
ARBN 072 377 158 ABN 48 072 377 158 *Hobart Tasmania 7000* *Hobart Tasmania 7001* *Facsimile (03) 6230 5823*

Appendix A: The benefits of the enhanced RET

Any further delay in the passage of the enhanced RET legislation, is a delay in jobs, investment and climate change action. The enhanced RET will ensure the immediate deployment of renewable energy projects throughout Tasmania and Australia. These renewable energy projects can deliver:

- energy security for Australia, including protection from the impacts of drought and future climate change;
- over 20,000[1] jobs throughout rural and regional Australia;
- investment worth approximately $20 billion[2] in new renewable energy projects nationally which will stimulate regional economies; and
- an immediate and significant contribution to greenhouse gas abatement, reaching approximately 28.5 Million tonnes per annum by 2020[3].

Clearly debt markets are currently constrained globally. While this presents challenges for project financing, a well designed RET can provide the long term investor certainty that can boost confidence for major investments in renewable energy throughout rural and regional Australia.

In this context, the costs of the scheme are very small. Economic modelling undertaken by consultants McLennan Magasanik Associates (MMA) in 2009 revealed that the expanded 20% RET would increase retail electricity prices by around 3.0% in the period to 2020. This equates to approximately $4/MWh increase in wholesale electricity prices, adding less than $40 per year to a household electricity bill based on average consumption of 10 MWh.

More recent economic modelling undertaken by ROAM Consulting[4] for the Clean Energy Council also reveals that the cost of the RET, and these enhancements are minimal.

The modelling concluded that, for an average Australian household, the expanded RET (passed by the Australian Parliament in August 2009) would, produce a maximum cost increase in 2020 of just $1.54- $2.26 a week on electricity bills ($11.5 - $16.8/MWh). This is minor relative to natural price movements such as from CPI, drought curtailing supply or changes in demand.

Further modelling undertaken by ROAM reveals that by 2020 the combined LRET and SRES (as per the current enhanced RET legislation) will make-up

---

[1] Clean Energy Council, *Renewable Energy Jobs in 2009 and Forecasts to 2020,* 2009.
[2] IES, *Modelling the effects of design parameters on the expanded National Renewable Energy Target*, Clean Energy Council, December 2008.
[3] Department of Climate Change, *Stationary Energy Sector Greenhouse Gas Emissions Projections 2007*, Australian Government, February 2008.
[4] Roam Consulting, *Implications of the LRET and SRES modifications to the RET*, Clean Energy Council, March 2010.

only 6% of electricity prices and that by then, at the peak of the schemes impact, the average household will only be paying an extra $1.49- $2.20 a week ($11.1- $16.4/MWh).

It can therefore be concluded that the enhanced RET actually reduces the price impact relative to the expanded RET that was legislated in August 2009. This is as a result of the following factors:

- a reduction in the large scale target by 4,000GWh to 41,000GWh in 2020. This reduces the liability and cost compared to the previous 45,000GWh RET target.

- the fact that all small scale RECs are at fixed $40 rather than higher (LRET) market price. This will reduce the overall scheme cost.

- the only cost increase will result from any overall increase in SRES, which when combined with LRET, increases total liability over the original RET liability (of 45,000GWh).

Hydro-Electric Corporation *4 Elizabeth Street* ***www.hydro.com.au*** *GPO Box 355* *Telephone (03) 6237 3400*
ARBN 072 377 158 ABN 48 072 377 158 *Hobart Tasmania 7000* *Hobart Tasmania 7001* *Facsimile (03) 6230 5823*