

5 July 2018

NationalEnergyGuarantee@environment.gov.au.

Dear Commonwealth Government,

Re: National Energy Guarantee – Commonwealth Elements

Hydro Tasmania welcomes the opportunity to comment on the Guarantee's draft design. We have been pleased by the high level of engagement between the Energy Security Board and industry participants. There is a great deal of overlap between the ESB's design considerations and the Commonwealth elements. In particular, the ability for the Guarantee's design to support efficient long-term investment will be determined by the emissions trajectory prescribed in Commonwealth legislation.

As an additional point, the drafting and enacting of the Guarantee's legislation will be a critical phase in the real-world application of the policy. In particular, issues such as the treatment of existing contracts and how they are impacted may depend on the precise wording of the legislation. We look forward to consultation on the drafting and enactment of this legislation.

Responses to the Commonwealth Elements paper are provided as Attachment 1.

Hydro Tasmania looks forward to continuing to contribute to the development of the National Energy Guarantee. Please contact Colin Wain (03 8612 6443, colin.wain@hydro.com.au) if Hydro Tasmania can provide further assistance or information.

Yours sincerely

A handwritten signature in black ink, appearing to read "Andrew Catchpole".

Andrew Catchpole
Director Strategy & Market Development
Hydro Tasmania

Attachment 1 – Responses to the Commonwealth Elements Paper

“The Commonwealth Government is leading the design of elements of the Guarantee related to Australia’s emissions reduction targets: setting the emissions target under the Guarantee, the treatment of emissions-intensive trade-exposed (EITE) activities and the role of external offsets.”

1. Setting the emissions target

“The annual targets will be consistent with achieving a 26 per cent reduction on 2005 levels by 2030.”

“The Government proposes to set the annual electricity emissions targets for the first ten years of the Guarantee in Commonwealth legislation. The targets would be extended by 2025 for the period 2031 to 2035 and every five years thereafter.”

- We support the intention to provide confidence to electricity sector investors through providing guidance on the longer-term emissions trajectory. However, a 5 year notice period for changes to the emissions target would be more appropriate than setting 10 years of fixed, legislated targets before the Guarantee has commenced.
 - o It is appropriate that 5 years of targets are prescribed in legislation as well as an indication of the emissions trajectory for the following 5 to 10 years.
 - o Given the divergence of views across the Federal Parliament over the longer-term emissions constraint for the sector it may not add value to legislate a full 10 years of targets. Doing so could in fact lead to greater uncertainty over the durability of the legislation.
- As guiding principles, Hydro Tasmania believes the trajectory should:
 - o allow sufficient liquidity to underpin compliance in the first year of the scheme;
 - o be sufficiently robust that it is consistent with Australia's 2030 and Paris Agreement commitments; and
 - o be consistent with a net-zero emissions energy sector by around mid-century.
- It is important that the combination of emissions trajectory, banking provisions and any use of offsets does not result in ‘overachievement’ in early years of the Guarantee stalling medium and long-term investments.
 - o The Clean Energy Regulator has stated that the 33,000GWh RET target will be met and may be exceeded.
 - o A concern is that if there is no signal post-2020 for additional zero/low emissions investment from the NEG, then investment in the sector will dry-up.

- Forward wholesale prices show an observable downward trend. Recent investment in additional generation has placed downward pressure on wholesale prices.
 - o Setting the emissions trajectory offers an opportunity to provide a consistent and ongoing investment signal for zero/low emissions generation. Sustained investment can reduce price volatility through investment cycles and can lead to better outcomes for consumers.

- Australia's Paris Commitment is to a 26%-28% national emissions reduction on 2005 levels by 2030. The electricity sector is one of the few sectors with emissions currently below 2005 levels.
 - o There are substantial opportunities to reduce emissions in the electricity generation sector. With appropriate settings, Hydro Tasmania believes that the sector could exceed its share of national emissions abatement and can assist in the decarbonisation of other sectors including the transport sector. The design of the Guarantee can support these opportunities.
 - o The abatement cost for other sectors to meet a 26%-28% reduction are less well known. The Commonwealth should explore opportunities for the electricity sector to exceed its pro-rata share of abatement and, where economic to do so, support the economy to meet Australia's overall international emissions commitments.

“The Government will set the emissions reduction targets in Commonwealth legislation as a table of annual emissions per megawatt hour (MWh) targets (known as electricity emissions targets) for the financial years ending 2021 to 2030.”

- Hydro Tasmania supports the proposal to set targets as emissions per MWh.
- Targets should be legislated for 5 years with an additional indicative trajectory outlined for a further 5 to 10 years. We note that medium and longer-term targets will need to adjust to account for changes in electricity demand.

“Geographic neutrality”

- Hydro Tasmania supports setting a NEM-wide emissions intensity target. This will encourage the most efficient emissions reductions to be realised wherever they occur across the NEM.
 - o Tasmania's combination of existing hydropower infrastructure, potential for pumped-hydro energy storage and additional renewable energy generation offer an exceptional opportunity for the State to make a material contribution to the transition of the NEM to zero and low emissions energy sources.

2. Exemption for EITE activities

“All EITE activities exempt under the Renewable Energy Target (RET) will be eligible for exemption under the emissions component of the Guarantee.”

- Hydro Tasmania supports exemptions for Emissions Intensive Trade Exposed industries as applied under the RET.
- Any burden of meeting the emissions obligation will be passed on to non-exempt customers (including households and smaller businesses). To ensure that any additional costs are minimised, the ‘scaling-up’ of non-EITE load must be transparent with sufficient notice given of this ratio and/or any changes.

3. The role of offsets

“The Government is continuing to consider whether market customers should be allowed to use offsets to meet their obligations under the emissions element of the Guarantee. Should the Government decide they are eligible, market customers would be able to use Australian Carbon Credit Units (ACCUs) from the commencement of the Guarantee, with the Government to make a decision on the use of international units before 2020.”

- Current understanding of business as usual projections against a 26% emissions reduction target suggest that this target could be easily met and/or exceeded without the use of offsets.
- The use of offsets creates additional uncertainty for electricity sector investors and would dilute the incentive to invest in zero/low emissions generation in Australia.
- In our opinion, the first priority should be to encourage domestic abatement and provide the investment signal for the zero/low emissions generation necessary to transition the sector. As stated earlier, Hydro Tasmania believes that a consistent and sustained investment signal for zero/low emissions generation can lead to better outcomes for energy consumers.