

14 November 2012

Anthea Harris
Climate Change Authority
GPO Box 1944
Melbourne
VIC 3001

By email: enquiries@climatechangeauthority.gov.au

Dear Ms Harris

Re: Renewable Energy Target Review Discussion Paper

Pacific Hydro appreciates the opportunity to provide informal comments in response to the Discussion paper which we believe provides a considered response to the terms of the Renewable Energy Target Review.

Pacific Hydro is generally supportive of the tone of the recommendations however; we believe that the Authority could logically expand on its observation that the existing LRET target should not be changed by ensuring confidence in the target is strengthened. In our view, this could be delivered by:

- Incorporation of a “VRET Clause” to ensure that future reviews will not allow for a reduction in the target; but may allow for an increase.

Without this additional clause, there is a real risk that the target could be reduced and hence it is likely to translate to (continued) hesitance in PPA contracting.

As noted in our previous submission, if the target was to be lowered through this or future reviews, it would translate to:

- A significant reduction in revenue streams and destruction of value of existing renewable energy plant;
- A revaluation of all REC's held by buyers and sellers alike;
- Halting more than \$10 billion in new capital investment; and
- Project proponents immediately writing off a majority of project development costs.

All of these issues will have a direct and material impact on the financial position of all participants in the market and would raise the real prospect of significant sovereign risk to investors. This outcome would also have a direct impact on the prospect of meeting the RET target with contingent impacts on the total (domestic) emission reduction and Australia's climate change objectives under the RE Act, the Clean Energy Future legislation and our international commitments under the Kyoto Protocol and the UN Framework Convention on Climate Change

In this context, Pacific Hydro urges the Authority to recommend that a VRET clause be added to underpin confidence and market assurance. Were that to be in place, Pacific Hydro would be confident that the timing of reviews would hold lower order risks for investors.

For your information and to provide some further background, we have included a slide-pack which demonstrates the roller-coaster of large-generation certificate price fluctuations in response to multiple changes over the past ten years; using the ACIL Tasman analysis; forecast the potential impact of a major reduction on investment, impact of an LGC price drop, the cost of LRET in the context of investment in the energy sector; and the benefits of the RET as outlined by the SKM report to the Clean Energy Council.

In its review, we strongly encourage the Authority to consider the full value equation of increased renewable energy generation in terms of improved air quality and health outcomes for communities in the vicinity of fossil fuel generation.

We urge the Authority to quantify the benefits on environmental and health outcomes to ensure that they capture the full benefit to Government and society of the 41,000 GWh target. This would (we believe) strongly outweigh other costs and emphasise the full value equation of this policy to all stakeholders. In our view, such an analysis by the Authority would be consistent with its statutory objectives regarding climate change policy drivers and demonstrate the underlying rationale to a broad range of stakeholders. To assist the Authority with quantification of the health and environmental benefits of reducing emissions through the deployment of renewable energy, we submit the following references:

1. Epstein, P. R. Full cost accounting for the life cycle of coal, in Ecological Economics Reviews, Costanza, R., Limburg, K. & Kubiszewski, I. (eds), Annals Of The New York Academy Of Sciences, 1219: 73–98.
2. Physicians for Social Responsibility, Coal's Assault on Human Health, 2009. Available online: <http://www.psr.org/assets/pdfs/psr-coal-fullreport.pdf>
3. Kjellstrom, T., et al. Air pollution and its health impacts: the changing panorama, Medical Journal of Australia, 2002, 177, p. 604-608.
4. Biegler, T. The hidden costs of electricity: Externalities of power generation in Australia, Report for the Australian Academy of Technological Sciences and Engineering (ATSE), 2009.
5. OECD, Ancillary benefits and costs of greenhouse gas mitigation, Proceedings of an IPCC co-sponsored workshop, 2000.
6. The Lancet, Health and Climate Change Series 1, November 2009.
7. Haines, A. et al. Public health benefits of strategies to reduce greenhouse gas emissions: overview and implications for policy-makers, The Lancet, Health and Climate Change Series 1, November 2009.
8. Health and Environment Alliance and Health Care Without Harm Europe, Acting Now for Better Health, Report, August 2010. Available at: http://www.env-health.org/IMG/pdf/HEAL_30_cobenefits_report - FULL.pdf
9. Muller, Z et al. Environmental Accounting for Pollution in the United States Economy. American Economic Review 101, August 2011.

In general, the objectives of the CCA Act and RET Act, which focus on environmental outcomes, should be the major factors on which the RET is considered and the Authority's final recommendations should have regard to these.

Pacific Hydro response to key CCA Discussion Paper Recommendations

Periodic reviews (Recommendation #1)

Pacific Hydro is reasonably comfortable with the Authority's recommendation to extend the timing of periodic reviews to every four years, or retaining the two year review cycle, *as long as* there is further confidence embedded in the fixed target. As noted below, in our view this would be best achieved by the inclusion of a "VRET clause" in the legislation.

LRET investor confidence in the fixed target (Recommendations #2, #3 and #4)

Pacific Hydro considers that the large scale generation target of 41,000 GWh by 2020 under the RET must be maintained, and the confidence in the target strengthened to provide assurance to domestic and international companies investing – in good faith – in these long-lived assets.

Pacific Hydro supports the Authority's conclusion that 41,000 GWh target is of vital importance to underscore investor confidence and market development. In our view, the logical extension from this finding would be to recommend the adoption of a "VRET Clause" to ensure that future reviews will not allow for a reduction in the target; but could allow for an increase. In this way the vital investor confidence in the market can be assured with either biennial (two year), or quadrennial (four year), reviews.

Separation of LRET and SRES (Recommendations #5, #6 and #33)

Pacific Hydro considers that the recommendation to incorporate some small scale PV solar into the LRET market would be unwise. There are identifiable risks that demand for such medium scale PV (in the 10-100kW range) could distort the supply of large-scale certificates, leading to a repeat of the problems which were experienced prior to the separation of the two certificate markets.

As the use of deeming is not visible to investors (unlike publicly known and announced project commitments and construction timeframes), until it appears in the market, it could have an unknowable impact on projects and their investors. The result is likely to be more uncertainty and risk in the LGC market, exactly at a time when investors and the market generally are in need of certainty and assurance.

Yours sincerely



Lane Crockett
General Manager, Australia
Pacific Hydro Australia