"SUBMISSION"

Dear Sir/Madam,

Thank you for the opportunity to comment on the *Abatement Incentives Prior to the Commencement of the Australian Emissions Trading Scheme* discussion paper.

Hydro Tasmania is Australia's largest renewable energy generator with a total generating capacity of 2518MW and an asset value of over $3.8 billion. Through our joint venture company Roaring 40s, we are involved in renewable projects in Australia, China, India and New Zealand.

Due to the proposed lead-in time associated with introducing an Australian Emissions Trading Scheme (AETS), Hydro Tasmania believes it is important that all credible projects that reduce greenhouse gas emissions prior to the scheme's start are rewarded. This is consistent with the objectives of emissions trading and recognises that early abatement can lower the long-term cost of meeting emissions reduction targets. This early action should be encouraged while considering that:

- The newly elected Australian Government has committed to introduce an emissions trading scheme by 2010; and
- The establishment of an early abatement incentive framework will involve a lot of work for what may potentially be a limited outcome and should not be a distraction from more critical issues in designing the AETS.

Hydro Tasmania agrees with the proposed criteria that abatement should be additional, permanent, measurable and verifiable. Furthermore, we support all forms of abatement that are consistent with these goals.

Further comments on specific areas of the discussion paper are detailed below.

Methodologies for assessing early action credit for energy efficiency

Energy efficiency can provide significant, least cost abatement of emissions through reduced electricity use. While it is acknowledged that energy efficiency will not receive additional credit after the commencement of an AETS (as its value will already be recognised through emissions trading), this should not delay investment in this important abatement field. Hydro Tasmania therefore recommends that criteria for energy efficiency be established as a priority during the lead-up to an AETS.

It is also important that the methodology captures the full benefit of demand reduction. When recognising credit for energy efficiency projects, the credit awarded should reflect the actual emissions saved by reducing demand. In some cases it may therefore be more appropriate to acknowledge the marginal emissions factor (MEF) and not the average emissions factor (AEF) when calculating credit for energy efficiency projects.

This is a particular issue in Tasmania, where due to Hydro Tasmania's large renewable capacity the average emissions intensity of electricity within Tasmania is 0.06 tCO_2-e/MWh (likely to be higher for 2006/07). This is far lower than the national average of approximately 1 tCO2-e/MWh. However, because the marginal generation within Tasmania is sourced from gas-fired generation at Bell Bay Power Station or through importing Victorian generation

through Basslink, each additional MWh of electricity used or saved through energy efficiency has a much higher emissions coefficient. A recent study by Hydro Tasmania of the electricity displaced through energy efficiency has shown that the MEF for Tasmania is very similar to that of Victoria at 0.92 tCO_2-e/MWh.

Without using this more accurate MEF for Tasmania, there will be less incentive to reduce energy use as each MWh saved will only result in recorded emissions abatement of 0.06 tCO2-e. This is unlikely to provide sufficient incentive to implement energy efficiency projects that were not already economically viable and would require firms to save very large amounts of electricity to obtain any real benefit. Using the more accurate MEF of 0.92 tCO_2-e/MWh will ensure that full environmental credit is given for energy efficiency measures within Tasmania and will provide an incentive for Tasmanian businesses to invest in energy efficiency as early as possible. Hydro Tasmania would welcome the opportunity to be involved in further consultation on this subject.

Greenhouse Friendly

Hydro Tasmania supports the use of Greenhouse Friendly as a standard against which offsets are assessed and approved. We note that Greenhouse Friendly allows project-specific methodologies for measuring abatement to be imported from other programs or internationally. This will enable flexibility in the development for the criteria of offsets. Hydro Tasmania believes that in establishing offset criteria and methodologies all possible abatement should be encouraged through transparent frameworks and legislation

Hydro Tasmania would support Greenhouse Friendly projects approved after 3 July 2007 being eligible to earn early action/offset credits.

The use of International Offsets under an AETS.

As a priority, abatement should occur within Australia wherever possible. However, Hydro Tasmania supports the use of some international offsets under emissions trading.

The international offset market is a rapidly growing and important market. At present, Clean Development Mechanism (CDM) and Joint Implementation (JI) credits are the most widely traded international offsets. As the framework for an AETS is developed, it is important that rigorous standards are applied to ensure that only highly credible international offsets are eligible. As well, if a single international standard for offsets is established then the AETS framework should be designed to enable its ready adoption in Australia. Australia should examine all possibilities to be involved in and lead the debate on international offset standards. In doing this it is important to encourage a broad range of offsets that are also highly credible.

The paper notes that, “Inclusion of international offsets raises a range of complex issues relating to policy and administration and further consultation will be undertaken in 2008 on these matters. ” Hydro Tasmania’s joint venture company Roaring 40s has considerable experience of the creation and operation of international offsets. As a result, Roaring 40s would be interested in being involved in further consultation on international offsets should the opportunity arise.

The development of a national offset register

Hydro Tasmania strongly supports the early development of a national offset register to provide transparency and credibility in the creation of early action credits and offsets.

Transitioning Credits into an emissions trading scheme

The discussion paper states that:

- *"It is proposed that there be no limits on the number of early action credits that would be recognised.*

- *It is proposed that early abatement be taken into consideration when setting the emissions caps in the initial phase of the scheme."*

Hydro Tasmania strongly supports both of the above recommendations. We believe that all possible abatement should be encouraged and that limiting the number of credits that could be created would have a negative effect on this. We also acknowledge that in setting the emissions trading cap it will be critical to consider the number of early action credits and offsets to avoid an over allocation of permits from the scheme's outset.

The use of appropriate data to inform permit allocation: The generation sector

While we recognise that verified emissions data will not be available for many sectors until the first reporting year of the National Greenhouse and Energy Reporting System (NGERS), we believe that this is not the case for the electricity generation sector.

To ensure the environmental integrity of the scheme, Hydro Tasmania believes it is important that data collected before 2008/09 is also taken into consideration when calculating permit allocation. While it is unlikely that the generation sector's operations will change significantly, permit allocation based on data collected in 2008/09, may have an impact on the behaviour of some generators during prior to this period. We therefore propose that a range of years, both pre and post scheme announcement, should be used to inform permit allocation to generators, thus ensuring the most appropriate environmental outcome. One suitable source of this data is the Greenhouse Challenge Plus (GCP) program of which all significant Australian generators are members. This will ensure that allocation is based on the most relevant emissions data available and not only from data produced after the announcement of the scheme.

Hydro Tasmania looks forward to providing input to the further development of the proposed AETS. Should you have any queries regarding this submission, please contact Ruth Groom on 03 6230 5128 or email ruth.groom@hydro.com.au.

Yours faithfully

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