David McCarthy
Executive Manager
MRET Review Secretariat
GPO Box 621
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Australia

Friday 2nd May 2003

Dear David

RE: Meridian Energy Australia Pty Ltd's submission to the Mandatory Renewable Energy Target Review Panel

Meridian Energy Australia Pty Ltd (MEAPL) is pleased to be making a submission to the Mandatory Renewable Energy Target (MRET) Review panel.

MEAPL owns and operates electricity generation facilities at five irrigation dams in New South Wales and Victoria. The five power stations, bought from Power Facilities Pty in 2001, have a total generation capacity of about 62 MW. The power stations provide electricity with zero greenhouse gas emissions compared to a 2003 NEM average of about 1.05tCO_2/MWh. Therefore they make a positive contribution to reducing in greenhouse gas emissions nationally.

The primary purpose of the dams associated with MEAPL's power stations is irrigation. Generation is therefore seasonal in nature, mainly concentrated around the snowmelt and irrigation seasons. In particular, generation output levels peak in the summer months when rainfall levels are low and water demand for irrigation and other uses is high.

Meridian Energy recognises the broad Terms of Reference of the Review, this submission will be focussed on the impact that the MRET will have on a small hydro owner and operator with potential efficiency improvement opportunities.

The main issues that MEAPL will detail in this submission are:

1. The existence of the MRET system plays an important part in the ongoing viability of MEAPL.

2. The ongoing existence and stability of the MRET will significantly impact any future investments in existing and future plants owned by MEAPL.

3. The MRET is generically a good system and should not be replaced by an emission trading system.

4. The MRET should be increased to a real 5 per cent of electricity consumption by 2010 and 10 percent by 2020. The length of the target should be extended to 2035 to ensure all projects built before 2020 have a minimum of 15 years eligibility for RECs beyond which they should be given baselines using a system similar to that used now.

5. The existing baseline methodology should continue.

6. The renewable energy shortfall charge should be indexed to the Consumer Price Index to maintain the real value of the penalty.

1. The existence of the MRET system plays an important part in the ongoing viability of MEAPL.

The economic impact of the MRET system on the value of the Power Facilities assets had a significant impact on Meridian Energy's decision to purchase the plants in 2001. It is possible that without this additional value the investment decision may not have been taken. On the same point, investment has already been committed based on the existing MRET system. It is grossly unfair to change those rules after their implementation, if any changes are made it is essential that existing participants should not be disadvantaged in any way.

2. The ongoing existence and stability of the MRET will significantly impact any future investments in existing and future plants owned by MEAPL.

MEAPL is investigating several options that will give the existing hydro plant more flexibility and generating ability during low flows, with the aim of improving the utilisation and efficiency of an existing fuel source and energy infrastructure.

Encouraging increased utilisation of a fixed fuel resource is highly efficient and highly desirable from an environmental perspective particularly as increasing emphasis is placed on maintaining the environmental health of Australia's waterways.

The construction and maintenance work associated with these developments will primarily be carried out by rural based Australian trades-people and companies.

Peak electricity prices will be the main driver for these investments, however the MRET will make an important contribution to the economics of these developments. It is possible that if the MRET system was removed or altered in such as way as to reduce the value presently received from the sale of RECs then this could have a negative impact on these investment decisions.

Therefore the existing and additional generation from MEAPL's assets has been and will be significantly affected by the MRET system, impacting on job creation, investment decisions, energy generation, GHG reductions and rural & regional growth. Some of the technologies being considered and used are new so it is also assisting with the commercialisation of new technologies

3. In MEAPL's view the MRET system is generically a good system and should not be replaced by an emission trading system.

The existing MRET system is acceptable to MEAPL. At present it means that Australia is a more attractive investment environment for its parent company than New Zealand which has no direct reliable support for renewable energy projects.

4. **The MRET should be increased to a real 5 per cent of electricity consumption by 2010 and 10 percent by 2020. The length of the target should be extended to 2035 to ensure all projects built before 2020 have a minimum of 15 years eligibility for RECs beyond which they should be given baselines using a system similar to that used now.**

Though the existing system is an excellent and innovative framework for industry development, the current target is too low and will result in less than 1% of electricity coming from new renewable generation by 2010. This is 10 times lower than equivalent standards now in place in Europe and 20 times lower than some US states i.e. EU renewable energy directive specifies increase in renewables equivalent to 12% by 2010, California legislation specifies 20% renewable portfolio standard by 2017.

It is better to encourage new investment by setting a higher future target than by frightening off investment by changing the system or extensively changing the ground rules so early in the MRET systems operation.

5. **MEAPL supports the existing baseline methodology**

MEAPL believes that the existing baseline method is appropriate and could be used as the basis for baselines for generation built prior to 2020 under the above proposal. This would encourage efficiency improvements in existing generation now and into the future.

We also believe that RECs should be created within six months of the generation of the underlying renewable energy to reduce the opportunity for organisations to impact on the MRET market through withholding supply. The existing rules on banking of created RECs should continue.

6. **MEAPL believes the renewable energy shortfall charge should be indexed to the Consumer Price Index to maintain the real value of the penalty.**

In addition to the main points above MEAPL would like the following points noted:

- end of March, rather than February 14th is a better surrender date as this allows calendar year end data to be processed by generators and retailers.
- The ORER should have discretion with regards to the treatment of unintentional errors are made in creating RECs.

Finally MEAPL believes that uncertainty in the regulatory environment has a negative impact on investment and the removal (or ongoing threat of removal) of the MRET system would have the strongest negative impact on new renewable generation investments.

Please contact us if you would like any of these points clarified or if you would like to discuss them further.

Yours sincerely,

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Director & Business Manager

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