

15 September 2025

Productivity Commission

Submitted online via <https://engage.pc.gov.au/page/make-a-submission>

Dear Productivity Commission,

RE: Five Pillars of Productivity Inquiries – Interim reports

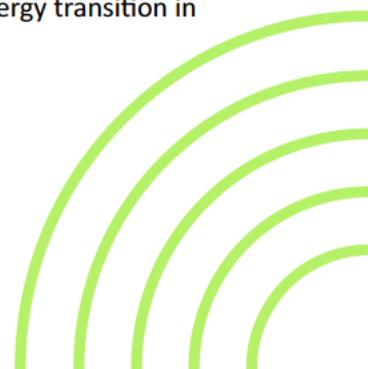
Hydro Tasmania welcomes the opportunity to comment on the interim reports published as part of the Five Pillars of Productivity Inquiries.

Hydro Tasmania is Australia's largest generator of renewable energy, producing the majority of our renewable electricity from the Tasmanian hydropower system. Hydro Tasmania also owns Victorian-based retailer Momentum Energy and specialist power and water consulting business Entura.

Based on our expertise in renewable energy, our comments are limited to the interim report regarding *Investing in cheaper, cleaner energy and the net zero transformation*.

Hydro Tasmania's key feedback includes:

- In principle support for the prioritisation of enduring, broad-based market settings in the electricity sector beyond 2030, with the exception that long-duration energy storage (LDES), particularly hydropower and pumped hydro energy storage (PHES) needs out-of-market policy mechanisms that recognise these critical system assets that need to be developed and realised in a timely manner in order to enable a reliable renewable grid (Recommendation 1.1).
- Support for the Safeguard Mechanism review in 2026-27 to consider a broadening of the Safeguard Mechanism (Recommendation 1.2).
- Support for the development of target-aligned national carbon values for use in policy development (Recommendation 1.4).
- Support for prioritising reforms to Australia's environmental laws, particularly the introduction of national environmental standards (Recommendation 2.1).
- Concern about the merits of amending the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) to include a 'ministerial consideration' of the needs of the energy transition in approvals and how this would be practically implemented (Recommendation 2.4).





Hydro Tasmania's more detailed comments are provided in **Attachment A**. If you have questions regarding this submission or wish to discuss it in further detail, please email Helen Gilmore at

[Redacted email address]

Yours sincerely

[Redacted signature]

Erin van Maanen
EGM Strategy



Attachment A – Hydro Tasmania’s detailed comments

Draft recommendation 1.1 - Reducing emissions in the electricity sector after 2030

Governments should prioritise introducing enduring, broad-based market settings in the electricity sector beyond 2030. The settings should:

- create nationally consistent incentives for lowest-cost clean energy, irrespective of generation technology or jurisdiction
- embed investment incentives to ensure reliability and system security are maintained.

Governments should also phase out any jurisdictional- and technology-specific incentives over time.

In principle we support the Productivity Commission’s draft recommendation that governments should prioritise enduring, broad-based market settings in the electricity sector beyond 2030. The NEM Wholesale Market Settings Review is currently exploring a market design that can support an efficient NEM resource mix. Hydro Tasmania supports this work and is participating in the Review’s public consultation processes. Some of the challenges we see are noted in the two paragraphs below.

Hydro Tasmania generally prefers national, market-based mechanisms to drive efficient, lowest cost outcomes for energy consumers across National Electricity Market (NEM) regions. However, there continues to be a role for government policy mechanisms for specific technologies or services that are needed but are not being appropriately valued and delivered by the market. A key example of this relates to long duration energy storage (LDES) and hydropower specifically. The 2024 Integrated System Plan’s Step Change Scenario estimates that by 2050 the National Electricity Market (NEM) will need a quadrupling of its dispatchable firming capacity, including 49 GW (646 GWh) of dispatchable storage to firm variable renewable energy (VRE). LDES will be particularly important in addressing high impact, low probability (HILP) events, such as prolonged wind and solar droughts in the NEM which shorter-duration batteries will not be able to meet.

There is an ongoing risk that under current market approaches this required LDES capacity may not materialise in time to enable the replacement of retiring coal generators. While the NEM is seeing good progress in the deployment of new variable renewables and short-duration (2-8 hour) batteries, the lack of 8+ hour capacity progressing past final investment decision may create a gap in reliable supply in the mid-2030s just as coal-fired energy generation exits the system and winter demand peaks become increasingly vulnerable to periods of low VRE. While conventional and pumped hydro energy storage (PHES) are mature LDES technologies there is currently significant uncertainty around the modernisation of existing assets and PHES project realisation. New PHES projects are highly capital intensive, involve long construction timeframes, and require revenue certainty for investors. As such, PHES projects face a ‘missing money’ problem that requires technology-specific government policy mechanisms now and potentially into the 2030s. To address this issue, the Australian hydropower sector is calling for a national hydropower roadmap to be developed as a priority to support investment in conventional and pumped hydro energy storage.

Draft recommendation 1.2 - The Safeguard Mechanism should cover more industrial facilities and carbon leakage provisions should be improved

The Australian Government should lower the Safeguard Mechanism threshold so that it covers more industrial facilities. The Safeguard Mechanism review scheduled for 2026-27 should determine the new threshold but favour broadening the scheme as much as possible. The review should also consider whether the lower threshold would introduce inefficiencies such as uneven coverage in some sectors, and whether it would be appropriate to phase in the inclusion of new facilities. If the review identifies no major countervailing considerations, reducing the threshold from 100,000 tonnes to 25,000 tonnes of carbon dioxide equivalent per year would be reasonable.

If the Australian Government introduces a border carbon adjustment, it should phase out trade-exposed baseline-adjusted status for Safeguard Mechanism facilities that would otherwise be exposed to competition from imports from countries without domestic policies to reduce emissions.

Hydro Tasmania agrees with the Productivity Commission's view that emissions-reduction policies should focus on where gaps exist, or overlaps can be eliminated. This will help drive the most efficient emissions reduction opportunities across the Australian economy and reduce costs from the net zero transition for consumers and/or taxpayers.

As an electricity generator and not a Safeguard facility, we are cognisant of our limited ability to comment further on arrangements under the Safeguard Mechanism. We see merit in considering broadening the Safeguard Mechanism to facilities and/or sectors that are lacking an incentive to reduce emissions, particularly where these facilities are already reporting as part of the National Greenhouse and Energy Reporting scheme (NGERs). Hydro Tasmania agrees with the Productivity Commission that the Safeguard Mechanism review scheduled for 2026-27 is best placed to consider the appropriate level for the Safeguard Mechanism threshold within the holistic policy framework. The threshold will need to decline over time, at the very least to ensure that existing covered facilities continue to be covered by the scheme as they reduce their scope 1 emissions.

Draft recommendation 1.4 - Apply frameworks to achieve emissions targets at least cost and improve transparency

The Australian, state and territory governments should improve the transparency of emissions-reduction policies by consistently including estimates of their cost-effectiveness in impact analyses. Those estimates should routinely be assessed against agreed national carbon values.

The Australian Government should:

- task an independent agency with relevant expertise with developing national carbon values. These values – estimates of the implied carbon prices needed to meet Australia's emissions targets – should be used consistently as policy benchmarks across government and in regular reporting on the cost-effectiveness of emissions-reduction policies
- design and evolve policy settings to be broadly aligned with these carbon values.

National carbon values would assist businesses and policymakers in their decision-making regarding emissions-reductions, helping to signal the most efficient emissions reduction actions within the economy. Hydro Tasmania considers aligning the national carbon values to Australia's Nationally Determined Contributions (NDCs) under the Paris Agreement is also sensible.

Draft recommendation 2.1 - Reform national environment laws

The Australian Government should reform environment laws to expedite approvals for clean energy projects and better protect the environment. The reforms should:

- introduce national environmental standards
- facilitate regional planning, particularly within renewable energy zones, with stricter statutory deadlines for assessing projects in 'go zones'
- provide accessible, high-quality information about the environment and past assessment decisions
- make offsetting arrangements more efficient, such as by enabling developers to meet their offset obligations by contributing to an Australian Government offsets fund
- set clear expectations about engagement with local communities and Aboriginal and Torres Strait Islander people.

Hydro Tasmania adds its support to the long list of stakeholders calling for reforms to Australia's national environmental laws to be a national priority, to improve both conservation outcomes and the efficiency and certainty of assessment and approval outcomes.

Hydro Tasmania particularly supports the introduction of national environmental standards, as recommended by the Samuel Review. National environmental standards would improve the relevance and reliability of guidance documentation under the EPBC Act and provide greater certainty for all stakeholders regarding both environmental and development outcomes. Currently guidance under the EPBC Act is outdated, absent, or results in differing standards across jurisdictions.

Hydro Tasmania also supports the implementation of regional planning or provisions to support landscape-scale habitat management. From our own experience in the management of large aquatic ecosystems, there is clear evidence that the protection and management of complex habitat has significant overall benefits to conservation outcomes. Landscape-scale habitat management is more likely to:

- result in the protection of more complex biological systems and improve resilience
- improve the interconnectedness of habitats
- improve freshwater ecosystems
- improve the condition of terrestrial native habitats for flora and fauna.

Lastly, while the focus of the Productivity Commission's Inquiry is federal, Hydro Tasmania supports the accreditation of state processes to avoid the duplication of assessments between the Commonwealth and states. In our experience, the states have greater understanding of state-specific environmental issues and closer working relationships with local communities.

Draft recommendation 2.4 - Consider the energy transition in approval decisions

The *Environment Protection and Biodiversity Conservation Act 1999* (Cth) should be amended to require the minister to consider the needs of the energy transition when deciding whether to approve an energy project that will have a significant impact on a matter of national environmental significance.

As both a renewable energy generator and a manager of sensitive terrestrial and aquatic ecosystems, Hydro Tasmania supports the inclusion of a new Matter of National Environmental Significance (MNES) under the EPBC Act related to reducing greenhouse gas emissions and the potential impact of climate change and climate variability on our natural environment. The inclusion of such a policy mechanism is consistent with the objects and purpose of the Act as climate change is a recognised global risk to all ecosystems and life processes.

The Productivity Commission's draft recommendation to instead amend the EPBC Act to require the Minister to consider the "needs of the energy transition" poses several complex questions:

- How would the "needs of the energy transition" be defined in legislation?
- What reference point or criteria would be used to make such an assessment? E.g. inclusion in AEMO's Integrated System Plan.
- Who would be providing advice to the federal Environment Minister regarding this consideration? Would the federal Energy Minister be included or consulted in this decision?
- Most importantly, how would trade-offs be assessed between environmental impact and the needs of the energy transition?

Hydro Tasmania supports the intent of this recommendation and would seek to work with the government to consider some of these issues if this recommendation was adopted. .