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Australian
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Carbon Pollution Reduction Scheme – Green Paper July 2008

Response by the Australian Council of Social Service (ACOSS)

ACOSS, September 2008

Contents

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Summary

ACOSS supports decisive and swift action by the Australian Government to reduce domestic greenhouse gas emissions from industry and households and to work with the international community to reduce global emissions.

ACOSS believes that low income households are particularly vulnerable to the impacts of climate change. Low income households and disadvantaged communities are likely to bear the impacts of climate change disproportionately.

ACOSS supports the introduction of a Carbon Pollution Reduction Scheme (**CPRS**) as one measure in a suite of measures designed to mitigate and adapt to the now inevitable reality of climate change.

The CPRS is intended to reduce the emission of greenhouse gases, in Australia and globally, in relative and absolute terms. The CPRS must facilitate the transition to a low carbon economy. The CPRS must prove to be effective, quickly and demonstrably.

The Government should acknowledge that the *intended* outcome of the CPRS and the *potential* outcome of measures such as mandatory targets for renewable energy, is to increase prices for essential goods and services, at least in relative terms and at least in the short term.

The Government should guarantee that no group of low income households need be financially worse off as a result of the CPRS. Low income Australians should be better off overall as a result of Government policies to reduce greenhouse gas emissions including the CPRS.

The Government should fully compensate low income households for cost increases attributable to the CPRS. This compensation should be paid through the social security and taxation systems and take account of the particular characteristics of various types of households.

The Government should ensure that cost increases resulting from the CPRS do not adversely affect the capacity of government agencies, non-government organisations and others to deliver services in support of low income households and the community at large.

The Government should introduce measures to significantly increase the efficiency of energy use in households, especially low income households, with a view to maximising amenity from energy consumed, minimising consumption and energy bills, and reducing carbon pollution.

ACOSS believes that energy is an essential service and that a reliable and affordable supply of energy must be guaranteed as far as reasonably possible. The regulation of Australian energy markets should ensure fair and affordable household tariffs for basic levels of consumption.

ACOSS does not support the inclusion of coal-fired generators of electricity in the category of strongly affected industries, principally because there is currently no effective competition for their product and because they can and are likely to pass increased costs through to

consumers. We suggest that any continuation of the protections and favour provided to these generators will act as a disincentive to investment in clean technology, whether 'traditional' baseload and peaking plant, distributed forms of generation and/or renewable energy.

Recommendations

In the absence of current and detailed modelling of the impacts of the CPRS on households, decisions regarding targets and trajectories for emissions reductions, and detail of the actual permit price, ACOSS recommends that:

1. As a matter of urgency, commencing ahead of the CPRS, the Australian Government develop, fund and implement a program to retrofit housing stock to maximise thermal efficiency, minimise energy consumption, and ensure reasonable levels of amenity and comfort with a view to anticipated climate change. This program should focus initially on low income households in both the public and private rental markets.

2. As a matter of urgency, commencing ahead of the CPRS, the Australian Government develop, fund and implement a program for low income households to facilitate the upgrade of basic equipment and appliances including for example, hot water systems and refrigerators, to best practice performance standards, with a view to mitigating against energy price increases, minimising consumption, and reducing greenhouse gas emissions.

3. As a matter of urgency, commencing ahead of the CPRS, the Australian Government in conjunction with state and territory governments develop and implement nationally consistent regulatory frameworks to ensure that best practice minimum energy performance standards are introduced and enforced for equipment and appliances, for building and construction, and for related materials and processes.

4. The Australian Government make arrangements for low income households to be fully compensated for cost increases resulting from the CPRS, from commencement of the CPRS, in a manner that is not contrary to the intent of the CPRS, takes account of the particular characteristics of various types of households and their patterns of consumption of services and goods, and ensures that compensation is maintained in real terms over time.

5. The Australian Government ensure that community welfare services, however funded and delivered, are not adversely affected by the introduction of the CPRS but are supported through the transition to a low carbon future and enabled to contribute to emissions reduction.

6. The Australian Government, in conjunction with state and territory governments, develop policy and regulatory frameworks to ensure that arrangements for the sale of energy and energy services ensure fair and affordable household tariffs for at least basic levels of consumption.

7. The Australian Government, in conjunction with state and territory governments, develop policy, regulatory, program and financial frameworks to ensure that fair and appropriate concession, community service obligation and utility hardship programs are maintained under a CPRS.

8. In considering the provision of assistance to industries, the Australian Government exclude coal-fired generators from free permits and cash compensation as these businesses do not meet the criteria for assessing whether an industry or entity is 'strongly affected.'

9. In the event that the Government chooses to regard coal-fired generators as a strongly affected industry and/or entity, no assistance should take the form of free permits, any and all cash assistance be made on the basis of conditionality and additionality, be limited and specific to projects directed to improving plant efficiency and/or reducing greenhouse gas emissions.

10. With regard to recommendations 7 and 8 above the Government not proceed to establish the Electricity Sector Adjustment Scheme as it will not be required, but even in the event that some coal-fired generators come to be regarded as strongly affected and eligible for assistance they be supported through transition via the Climate Change Action Fund.

11. With regard to recommendations 7 and 8 above, the Government should proceed to provide support and assistance to workers, communities and regions adversely affected by the CPRS and other transitionary responses to climate change, through the Climate Change Action Fund, and through transparent processes.

Introduction

ACOSS is the peak council of the community welfare sector in Australia and the national voice for the needs of people affected by poverty and inequality. Our interest in climate change, emissions trading and related arrangements arises primarily from our interest in matters affecting low income, disadvantaged and vulnerable Australians.

ACOSS and its many of its constituent member organisations have put the view that low income households are particularly vulnerable to the impacts of climate change. Low income households and disadvantaged communities are likely to bear the impacts of climate change disproportionately. They are generally less well equipped to cope, adapt and move. Adverse impacts on the natural environment, employment opportunities and community resources are likely to fall most heavily on poorer individuals and areas, wherever they are.

ACOSS believes that as a matter of principle, no group of low income households should be worse off as a result of climate change policies, and indeed that they should be better off. This may only be as a result of avoiding dangerous levels of climate change. However, opportunities for training, employment and community development should arise and be widespread. The transition to a low carbon economy should provide opportunities for innovation and enterprise.

ACOSS has called for government action in response to climate change in three key areas: improvements to residential energy efficiency; guaranteed affordability of essential energy services (fair tariffs and appropriate concession arrangements); and a safety net or compensation measures to ensure that low income households are not worse off as a result of emissions trading and other responses to climate change. ACOSS, in conjunction with the Australian Conservation Foundation and Choice, has recently published a research report detailing the potential for improvements to household energy efficiency and outlining recommendations for action. [1]

This document is provided by way of an initial response to the Australian Government Carbon Pollution Reduction Scheme Green Paper (**the Paper**) published in July 2008.[2]

ACOSS supports the introduction of a Carbon Pollution Reduction Scheme (**CPRS**) as one measure in a suite of measures designed to mitigate and adapt to the now inevitable reality of climate change. ACOSS is broadly supportive of the analysis and recommendations detailed in the Green Paper. ACOSS wishes to congratulate the Government for its informative and consultative approach to this work. We do, however, have concerns about speed of the process and the lack of critical information.

While we have regard to the urgency of the matters at hand and the Government's commitment to act with matching urgency, we note the brief period for analysis of the Paper and other material including the work of the Garnaut Climate Change Review. These 'diabolical' issues are complex individually and at their intersections; the way in which the nation responds will have long lasting consequences. ACOSS has had limited capacity to inform and consult with the community services sector.

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[1] Australian Conservation Foundation, Australian Council of Social Service and Choice 2008. Energy & Equity - preparing households for climate change: efficiency, equity, immediacy
[2] Department of Climate Change 2007. Carbon Pollution Reduction Scheme - Green Paper July 2008

ACOSS had understood that modelling of the impacts of an emissions trading scheme on households would be available to inform our analysis and response. An understanding of impacts on households is critical to our analysis. In the absence of new modelling, we have instead relied on work carried out last year by the National Institute of Economic and Industry Research [3] A carbon price will impact upon different households in different ways. One lesson taught by the introduction of the GST is that these differences are significant.

The process of designing an emissions trading scheme in the absence of targets for emissions reductions has been likened, metaphorically, to designing an automobile and then deciding how fast it should be driven.

ACOSS suggests that the CPRS must price greenhouse gas emissions in such a way as to encourage significant shifts in investment decisions and facilitate genuine consumer choice. There is significant risk that in the absence of clear signals and incentives all that will happen is the price of goods and services will increase and the machinery of the CPRS will simply collect, process, and recycle money from and to consumers. The CPRS is intended to introduce a new input cost to production; its effect must be to reduce emissions.

While there may be an argument for starting cautiously, slow and low, there is another argument that the threshold for effectiveness is reasonably high and that clear signals must be sent early. Polling continues to suggest that Australians understand climate change, its causes and effects, and are well disposed to respond appropriately.

The Paper makes reference to the European Union experience of emissions trading, notably the results of Phase 1 of the scheme that operated there and observes that "[t]he combination of very generous allocations and the ability to pass on costs meant that some fossil fuel-fired generators were able to earn windfall profits from the scheme, causing considerable public controversy." [4] The Paper also notes that the majority of these allocations were received free of charge but generators nonetheless "passed most of this *cost* through to consumers."

Arguably, the outcomes of this scheme were also significant wealth transfers to most fossil fuel-fired generators alongside significant increases in retail prices paid for electricity by households, accompanied by a near absolute failure to reduce emissions from fossil-fuel fired generation.

If the Government acts to provide any assistance to industry by way of mitigating the impacts of a CPRS, that assistance should in every instance be conditional on a thoroughly documented assessment processes, efforts towards abatement as appropriate and a regime of monitoring, compliance and penalty.

In terms of public policy ACOSS seeks to ensure that all government mandated responses to climate change are: evidence based; consistent and coordinated; transparent in design and operation, held accountable and thoroughly reported. The benefits of any action should outweigh the costs and also outweigh the costs of inaction. Outcomes should be verifiable.

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[3] National Institute of Economic and Industry Research 2007. The impact of carbon prices on Victorian selected household types – A preliminary analysis. Report for Brotherhood of St Laurence
[4] Department of Climate Change 2008 p 347

Acting on Climate Change

In this section we offer some headline responses to the introductory part of the Paper [5]. These underpin our views.

Why we need to act

Our understanding is that in the absence of appropriate and timely action, the consequences for the nation and the planet will be significant and adverse.

How we should act

- ***reducing greenhouse gas emissions***

Our understanding is that Australia's emissions, under current 'business as usual' circumstances, are on a trajectory to **increase** by between 20% and 25% on 2000 levels by 2020. Further, we understand that in order to minimise the risk of dangerous levels of climate change, Australia must aim to **reduce** emissions by between 20% and 25% on 2000 levels by 2020. The **net** effect of these positions is that Australia must aim to reduce emissions by between 40% and 50% of where 'business as usual' would take us in 2020.

This goal is challenging but Australia has proved dynamic and resilient in facing past challenges. The prospective economic benefits of achieving this goal through innovation and enterprise far outweigh the potential financial costs. The costs of inaction are incalculable and extend to the unmeasurable; the sentimental and intangible. The nation should act to equitably share costs and benefits, engage its citizens, encourage participation and be mindful of efforts internationally.

A reduction in emissions will be brought about by some combination of the proposed cap and trade scheme, the introduction and extension of new 'clean' technologies, and a range of complementary measures including measures to increase energy efficiency and better manage demand for energy.

- ***adapting to climate change that we cannot avoid***

Measures to adapt to climate change may already be required in some areas. The science suggests that processes of climate change are well in train and may be responsible for observed trends in temperature and rainfall over recent decades. Existing and anticipated levels of atmospheric greenhouse gases may accelerate and intensify these changes before efforts to reduce emissions become effective. Measures directed to adaptation, particularly towards coping with temperature increases of 2°C or more and reduced rainfall, should begin now.

- ***helping to shape a global solution***

Australia is a relatively wealthy nation. Australia has benefitted greatly from its highly emissions intensive domestic economy and from exports of highly emissions intensive commodities. Australian businesses and households still pay, relatively, much less for

[5] Department of Climate Change 2008 p iii

energy than consumers elsewhere. Of developed nations, Australia is likely to experience the most extreme impacts of climate change on settlements, agriculture, industry and the natural environment. Whether through self-interest and/or good global citizenship, Australia must and can afford to join with international leaders in developing international approaches to mitigation and adaptation.

Reducing carbon pollution

The CPRS must prove to be effective, quickly and demonstrably. The risks revealed by some early emissions trading schemes (all cost and no carbon reduction benefits) must be avoided here. Efforts to measure and report emissions and reductions should be thorough, verifiable and publicly reported.

Support for households and business

The Paper states that there will be ‘adjustment costs’ for households and businesses arising from the CPRS. We reiterate our earlier remark that low income households are particularly vulnerable to the impacts of climate change. Low income households and disadvantaged and vulnerable communities are likely to bear the impacts of climate change disproportionately. They are generally less well equipped to cope, adapt and move. Similarly, low income households are likely to bear the effects of a CPRS disproportionately. The CPRS is essentially regressive in nature. It will increase the price of essential goods and services on which low income households rely and on which they spend relatively more of their income.

Support for low income households should include: measures to increase energy efficiency (and thus minimise consumption and bills); measures that ensure energy, an essential service, is affordable; and measures that ensure spending power is not eroded by the introduction of a CPRS.

Low income households

More than 2 million Australians live on or below poverty level incomes, and those who derive income from income support payments and/or low fixed wages have little or no capacity to absorb further increases in the cost of essential goods and services without facing deeper hardship. Low income households:

- typically spend all of their income, or more than their income (eg if drawing down savings or going into debt), whereas high income households are typically net savers;
- typically spend a higher proportion of their budgets on essentials such as fuel, power and food, which are disproportionately affected by emissions pricing; and
- typically use energy more inefficiently because they live in poorly insulated homes, use older appliances, drive second hand cars, etc.

The Paper reports internal Government analysis that projects significant price increases for goods and services including, at an indicative $20/t, electricity increasing by 16% and gas and other household fuels increasing by 9%. [6] Energy and fuel are essential services. Low income households tend to consume less energy and fuel than high income households but to expend a significantly higher proportion of their income on these items. The Australian Bureau of Statistics (ABS) reports that low income households spend on average half as much in dollar terms as high income households but that this is nearly double the proportion of total expenditure. These relativities have remained consistent over time.

[6] Department of Climate Change 2008 p 281

Table 1 Energy, fuel and water service costs for Australian households[7]

	Lowest 20 per cent	Second 20 per cent	Third 20 per cent	Fourth 20 per cent	Fifth 20 per cent	Average
Mean gross household income $/wk 2003-04	263	555	930	1,385	2,512	1,128
Total expenditure on goods, services $/wk						
98-99	342.85	482.58	648.04	851.03	1171.4	698.97
03-04	413.32	603.64	859.38	1090.32	1499.18	892.83
Water, sewage						
98-99 $/wk	3.89	4.55	5.71	6.92	8.5	5.91
% expenditure	1.13%	0.94%	0.88%	0.81%	0.73%	0.85%
03-04 $/wk	$3.71/wk	4.48	5.77	6.84	9.12	5.98
% exp	0.90%	0.74%	0.67%	0.63%	0.61%	0.67%
Energy supply - electricity and gas[8] $/wk						
98-99 $/wk	12.85	15.87	17.72	19.85	23.08	17.87
% exp	3.75%	3.29%	2.73%	2.33%	1.97%	2.56%
03-04 $/wk	16.4	20	23.27	25.46	31.68	23.59
% exp	3.97%	3.31%	2.71%	2.34%	2.11%	2.64%
Transport fuel $/wk						
98-99 $/wk	11.92	19.38	26.91	33.75	40.27	26.43
% exp	3.48%	4.02%	4.15%	3.97%	3.44%	3.78%
03-04 $/wk	14.76	24.05	34.89	41.59	48.94	32.83
% exp	3.57%	3.98%	4.06%	3.81%	3.26%	3.68%
Total energy, water and transport						
98-99 $/wk	28.66	39.8	50.34	60.52	71.85	50.21
98-99 % exp	8.36%	8.25%	7.77%	7.11%	6.13%	7.18%
03-04 $/wk	34.87	48.53	63.93	73.89	89.74	62.4
03-04 % exp	8.44%	8.04%	7.44%	6.78%	5.99%	6.99%

Analysis of the ABS Household Expenditure Survey 2003-04, commissioned by ACOSS, details the incidence of financial stress indicators at different income levels. This data confirms that many low income households experience difficulty in paying for essential utility services. It also illustrates levels of vulnerability at higher income levels.

[7] ABS (2006) *ABS Household Expenditure Survey;* ABS (2000). *ABS Household Expenditure Survey.*
[8] Note ABS describes this line as fuel and power, and it also includes purchase of wood, heating oil etc

Table 2 Energy, fuel and water service costs for Australian households [9]

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	All
Equivalised disposable income quintiles $/wk 2003-04	cutoff 298	cutoff 427	cutoff 563	cutoff 744		
Indicator	%					
Could not pay electricity, gas or telephone	21	19	17	12	5	15
Spend more money than we get	25	20	19	15	8	18
Unable to heat home due to shortage of money	5	3	2	1	0	2

In most Australian jurisdictions, energy prices are increasing at rates well beyond both the general inflation rate and the Consumer Price Index. For example, in 2008, electricity prices will increase in New South Wales by 8.7%, in Victoria by 15.0% and in Tasmania by 15.7% (from January) and a further 3.9% (from July). Factors affecting retail prices for households include the price of input fuel (gas and coal), drought and related water shortages, network augmentation, new generation plant, the introduction of renewable generation to the grid and regulatory changes. Following a long period of price stability in the wholesale electricity market there is now increasing volatility and indications are that prices will trend to steep increases.

The ABS data quoted above suggest a level of 'fuel poverty' in the community. If, on average, low income consumers are spending nearly four per cent of their income on electricity and gas it is likely that consumers in some circumstances or with some characteristics, are spending considerably more. And if the five per cent of the survey sample who were unable to heat their home were concentrated in areas of more extreme winter temperatures, were elderly or ill, these statistics highlight a significant issue of concern. Demand for electricity is demonstrably inelastic. Little of the electricity used by low income households is discretionary and in many cases there is no substitute.

ACOSS is concerned to highlight anecdotal evidence suggesting that many low income households currently under-consume energy. That is, they use less than is required to provide reasonable minimum levels of comfort and amenity. While their consumption may in some cases be inefficient as a result of factors such as a poorly insulated home or poorly performing appliances, the result of low levels of consumption or rationing is that they experience discomfort and potential risk to wellbeing and health.

Some low income households record relatively high levels of consumption. Relatively high levels of consumption may result from factors such as a poorly insulated home or poorly

[9] Australian Bureau of Statistics 2008 Household expenditure survey 2003-04 Incidence of financial stress indicators by weekly equivalised disposable income quintiles

performing appliances and/or from household characteristics such as number of persons, an illness or disability, or location and climate.

Welfare expenditure in Australia (including labour and employment programs)

The Commonwealth Government will distribute about $75 billion worth of benefits and allowances in 2008-09 to approximately 6.5 million people. [10] An indication of the complexity of these arrangements is that there are 140 different products provided on behalf of 25 government agencies.

The Paper estimates that the worst case price impact for low income households resulting from the introduction of a CPRS is 1.2% at $20/t and thus 0.6% at $10/t increasing by 0.6% for each additional $10/t. If the illustrative price of $20/t is applied, the increase in spending on benefits and allowances (in 08-09 dollars) to maintain real value would be in the order of $900 million.

Research undertaken by Professor Peter Brain at the National Institute of Economic and Industry Research [11] suggests that the effect of a carbon price will be to increase prices by 1.84% at $20/t for poor households (adjusted for the sake of comparison from impacts at $25/t to $20/t and assuming a linear relationship between carbon price and consumer price impacts).

If the NEIR analysis is applied the increase in spending on benefits and allowances (in 08-09 dollars) to maintain real value would be in the order $1,380 million.

ACOSS notes the current levels of benefits and allowances in order to highlight the effect of even small price increases, especially for essential goods and services.

The age pension is paid at approximately $275 per week for a single person and $450 per week for a couple. Newstart, the allowance paid to unemployed persons is paid at the rate of $220 per week for a single person, $400 per week for a couple and $235 per week for a single person with one child. Rent Assistance is paid at a maximum $50 per week. The Utilities Allowance is paid at the rate of $500 per annum, in quarterly instalments, to a range of pension and benefit recipients. Recipients of Newstart are amongst those who are **not** entitled to this Allowance.

ACOSS notes the work in train through other parts of Government, notably the “comprehensive review of Australia’ tax system to create a tax structure that positions Australia to deal with the demographic, social, economic and environmental challenges of the 21st century and enhance Australia’ economic and social outcomes” (the Henry Review due to report by the end of 2009) and the related review of the pension system (the Harmer Review due to report in early 2009). Either or both of these of these reviews could result in significant changes to the framework and cost of welfare payments. Either or both of these reviews could impact on the consideration and design of compensation for increased prices due to a CPRS through the tax and transfer systems.

[10] Harmer, J 2008 op cit., This paper notes at pp 64 -67 total expenditure on 2006-07 of $70,894 billion. A rough estimate of $75 billion is based on indexation and policy changes such as increasing and extending entitlement of Utilities Allowance announced in the 2008-09 Budget.
[11] National Institute of Economic and Industry Research 2007

Welfare services expenditure in Australia

The Australian Institute of Health and Welfare estimates that in 2005-06 the nation spent $29 billion on 'welfare services' additional to benefits and allowances. [12] Their overview notes that governments funded 71%, with the non-government sector funding the remaining 29%. However, the non-government sector actually delivered two thirds of the value of services provided. These services include, for example, aged care, child care, services for people with a disability and a range of concessions. These services are a critical feature of Australian society and complement the system of benefits and allowances. These services are of particular importance to low income, disadvantaged and vulnerable individuals and households.

The AIHW reports that over the period 1998-99 to 2005-06, real growth in expenditure on welfare services averaged 3.7% per year, slightly higher than inflation at 3.5% and GDP growth at 3.2%.[13] Several factors may be responsible for real growth in expenditure on welfare services including, for example, changes in the state of the economy, the ageing of the population, and variations in entitlement. The CPRS is likely to affect expenditure on welfare services. These effects should be monitored.

Welfare service providers tend to be energy and emissions intensive and have relatively little discretion (ie most expenditure is for essential and basic goods and services including food, fuel and energy). And in common with low income households, most welfare services operate from premises that use energy and water relatively inefficiently. Few have any capacity to raise revenue from the people who use their services.

In a recently published paper The Australia Institute suggests that the CPRS will result in the community sector and all levels of government incurring significant cost increases and/or necessitate a diminution in service levels.[14]. This paper suggests that a carbon price of $20/t will increase costs to the federal government by $991 million, to state governments by $1,400 million, and to local governments by $334 million. The range of estimated effects on the community sector is between $822 million and $1,191 million.

The Institute suggests that up to $3.5 billion per annum may be required to compensate these sectors and thus ensure maintenance of service provision at current levels.

ACOSS suggests that further research and analysis be conducted to assess the potential impacts of the CPRS on welfare services and the capacity of the government and community sectors to maintain the quality and quantity of services delivered. The Government should guarantee, at a minimum, that service levels will be maintained.

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[12] Australian Institute of Health and Welfare 2007 Welfare expenditure in Australia 2005-26. Health and welfare expenditure series no. 31. Cat. no. HWE 38. Canberra: AIHW
[13] Australian Institute of Health and Welfare 2007
[14] Richardson, D 2008. Who are the (un)intended losers from emissions trading? The Australia Institute Research Paper No. 55, September

The Green Paper

Household assistance measures (Chapter 8)

The Paper suggests that "the introduction of the scheme is designed to enable Australia to reduce its greenhouse gas emissions at the lowest possible cost... [and] will do this by changing the relative prices of goods and services, which in turn will lead to changes in the production and consumption decisions across the economy" and acknowledges that "one way or another, all of these changes will flow through to households". [15] The Paper also acknowledges that price impacts "may be mildly regressive".

While ACOSS is cognisant of the goal of the CPRS, we are concerned that the primary effect of a carbon price may be to simply increase the cost of essential goods and services. Goods and services with lower carbon content may not be available to be substituted or be affordable, particularly for low income households and particularly in the near term.

The Paper sets out the Government's current analysis of the impacts of a carbon price on various types of households. This analysis proposes a worst case impact 1.2% price increase (CPI) for sole parent or widower pensioner households and a range for all households from 0.8% to 1.2%.

Research by the National Institute of Economic and Industry Research (NEIR) [16] indicates that goods and services purchased by low income households tend to be relatively more emissions intensive. Essential and basic goods and services tend to make up a greater proportion of low income household expenditure.

The NEIR work found that **both** the extent and range of price impacts were greater: from 0.24% for high income, double income, no children households through to 1.84% for poor households (adjusted for the sake of comparison from impacts at $25/t to $20/t and assuming a linear relationship between carbon price and consumer price impacts). The NEIR modelling found that about half the price impact resulted from increased prices for energy and fuel (direct carbon costs), the other half from increased prices for goods and services with 'embedded' carbon.

8.1 Household assistance commitments

The Paper notes that "[t]he Government has committed that every cent raised for the Australian Government from the Carbon Pollution Reduction Scheme will be used to help Australians – households and businesses – adjust to the scheme and to invest in clean energy options". ACOSS welcomes this commitment.

However, along with our overriding concerns that there must be real progress in the transition to a low carbon economy with protections for low income households, there must be rigour, consistency, transparency and accountability in processes that manage the distribution of funds for both households and businesses.

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[15] Department of Climate Change 2008 p 277
[16] National Institute of Economic and Industry Research 2007

ACOSS also believes that Australia has a significant if as yet undefined role in working with developing nations to assist them and their peoples in the transition to a low carbon future. In making a promise to use "every cent... to help Australians" we should be cognisant of our responsibilities internationally and especially in our region.

Government is committed to:

• Increase payments, above automatic indexation, to people in receipt of pensioner, carer, senior and allowance benefits and provide other assistance to meet the overall increase in the cost of living flowing from the scheme.

This commitment is welcome. Our view is that price increases directly associated with the CPRS will flow from commencement of the scheme. We note that there are approximately 6.5 million recipients of benefits and allowances and that in 2006-07 more than $70 billion was paid through the welfare system. [17] It is widely acknowledged that current payment levels, for most cash benefits and allowances, are insufficient to meet the cost of living. Any price increases, for even brief periods, will serve to further adversely affect recipients of benefits and allowances.

Given the widely acknowledged likelihood of significant increases in the price of essential utility services as a result of the CPRS, ACOSS recommends that entitlement to the Utilities Allowance be extended to recipients of all cash pensions, benefits and allowances delivered through the transfer system including labour market and education (student) programs.

• Increase assistance to other low-income households through the tax and payment system to meet the overall increase in the cost of living flowing from the scheme.

ACOSS notes that the definition of 'low income' households is generally understood as meaning the two lowest quintiles of income. [18] We are concerned that increases to the prices of essential services, notably energy and food, will impact regressively and most severely on these households.

It is important to note that low income households are more likely to rely on assistance from welfare services (ie benefits in-kind), on an ad hoc (for example emergency relief) or continuing basis (for example aged care facilities). Welfare services tend to be more carbon intensive than businesses generally as they tend to purchase relatively more in the way of basics such as fuel, energy and food. In meeting the overall increase in the costs flowing from the CPRS it is critical that real levels of revenue and current levels of service delivery are maintained.

In contemplating the scope and nature of assistance for low income households it is essential that welfare services be given appropriate regard. ACOSS has outlined the potential impacts of the CPRS on these services ranging along a continuum from significant cost increases to the need to reduce services if revenues cannot be increased.

[17] Harmer, J 2008 Pension Review Background Paper Department of Families, Housing, Community Services and Indigenous Affairs. August
[18] Australian Bureau of Statistics 2008. Incidence of financial stress indicators by weekly household equivalised disposable income quintiles, Household Expenditure Survey 2003-04

• Provide assistance to middle-income households to help them meet any overall increase in the cost of living flowing from the scheme.

ACOSS defines low income households as those in the two lowest quintiles of income. These are households generally understood to be living in poverty or in continuing severe financial hardship. We note, however, that other households are vulnerable to financial stress and that there is not a clear demarcation between 'low' income and 'middle' income. The ABS reports that, in answer to the question, *Could not pay electricity, gas or telephone*, the three lowest quintiles answered in the affirmative at rates of 21% (first) 19% (second) and 17% (third). Several other indicators of financial stress suggest that there are strong similarities between the second and third quintiles.

• Review annually in the Budget context the adequacy of payments to beneficiaries and recipients of family assistance to assist households with the overall impacts of the scheme, noting that these payments are automatically indexed to reflect changes in the cost of living.

ACOSS is concerned that annual reviews may be insufficient, especially in the early phases of the scheme. There may be unanticipated and significant price increases for essential goods and services. It is critical that prices are closely monitored for the effects of the CPRS and that adjustment are made in a timely manner, including if needs be, outside the Budget context.

• Provide additional support through the introduction of energy efficiency measures and consumer information to help households take practical action to reduce energy use and save on energy bills so that all can make a contribution.

ACOSS is generally supportive of measures to increase the efficiency with which energy is produced, distributed and consumed. However, we are concerned to ensure that measures pass the test of benefits outweighing costs. We are especially concerned to ensure that any measure funded by the Government from consolidated revenue or CPRS revenue should pass that test.

Professor Garnaut has remarked that "[t]he most inappropriate response [to climate change] would be to delude ourselves, taking small actions that create an appearance of action, but which do not solve the problem. Such an approach would risk the integrity of our market economy and political processes to no good effect". [19]

ACOSS suggests that some so-called energy efficiency measures may create an appearance of action but contribute little in the way of mitigation or adaptation. There are fundamental policy decisions to be made about the intended outcome of household energy efficiency measures and thus their scope and beneficiaries.

Energy efficiency measures can take many forms including: encouraging behaviour change, improving the thermal efficiency of buildings, changing the time of energy use, installing appliances and equipment that meet best practice performance standards. On a larger scale, efficiency measures go to the design of communities, transport systems and other infrastructure.

[19] Garnaut Draft Report 2008 p 2

Energy efficiency measures can be directed towards one or more outcomes such as minimising consumption; minimising expenditure; minimising greenhouse gas emissions; maximising amenity and comfort. However, improved energy efficiency measures can not be assumed to lead to any one or more of these outcomes.

While the provision of consumer information, in the right media in the right places at the right times, may contribute to improved energy efficiency, much has been made of the fact that information alone is often insufficient to affect change. Significant barriers to change include financial hardship, bounded rationality and the so-called split incentive.

• The Government has also indicated in the terms of reference for Australia's Future Tax System Review that it is to consider the interrelationships between the tax and transfer payment systems and the scheme.

ACOSS acknowledges, supports and is making contributions to the Government's reviews of the tax and transfer payment systems. While acknowledging the enormous scope of that task and the scale of policy making involved in responses to climate change, ACOSS is concerned to ensure that at the intersection of tax, welfare and climate policies there are coordinated and consistent outcomes for low income households. The Paper notes that "the scheme is intended to deliver abatement, and not to adversely affect the distribution of income and wealth". ACOSS understands an adverse redistribution of wealth to include outcomes that inappropriately benefit wealthy households.

8.2 Impacts of the scheme on households

The Government should acknowledge that the intended outcome of measures such as an emissions trading scheme and the potential outcome of measures such as mandatory targets for renewable energy will be to increase prices for essential goods and services, at least in relative terms, and at least in the short to medium term. Efficiency gains and reduced energy consumption may offset cost increases but this is not necessarily the case.

8.2.1 Price impacts

The Paper suggests that "it is likely that price impacts will initially be concentrated in electricity and gas prices" and that the "prices of other goods will also rise as the carbon price permeates the economy" [20] The Paper confirms our understanding that, indicatively, a carbon price of $20/t is likely to increase electricity prices by 16% and gas and other household fuels by 9%. [21] These prices will increase over time as the carbon price increases. The Garnaut Review reckons that a carbon price of $20/t introduced in 2010 will have increased to $34.50 by 2020. [22] In answer to a question following his release of the Supplementary Draft Report, Professor Garnaut suggested that electricity prices could increase by 40% as a result.[23]

ACOSS suggests that a carbon price will increase the price of essential energy services as well as other essential goods and services including food. In fact, this is the purpose of a

[20] Department of Climate Change 2008 p 297
[21] Department of Climate Change 2008 p 282
[22] Garnaut Climate Change Review 2008 Targets and Trajectories Supplementary Draft Report, September p 47
[23] Garnaut Climate Change Review Professor Ross Garnaut Transcript of National Press Club Address 5 September 2008 p12

carbon price. We suggest that there is some considerable risk that low income households may experience further cost increases as a result of the embedded cost of carbon finding its way into other essentials such as food.

The Paper sets out the Government's current analysis of the impacts of a carbon price on various types of households. This analysis proposes a worst case impact 1.2% price increase (CPI) for sole parent or widower pensioner households and a range for all households from 0.8% to 1.2%.

The report notes that "other studies have found broadly similar results, although some studies find a wider range of price effects between low and high income households" and, at an endnote, refers to analysis carried out by National Institute of Economic and Industry Research (NEIR) [24] for the Brotherhood of St Laurence in 2007. The Paper notes that this work found the impact would have a wider distribution. Critically both the Government and NEIR analysis found that the impact of a carbon price would be regressive.

The NEIR work found that **both** the extent and range were greater: from 0.24% for high income, double income, no children households through to 1.84% for poor households (adjusted for the sake of comparison from impacts at $25/t to $20/t and assuming a linear relationship between carbon price and consumer price impacts).

"[T]he modelling does not allow for any substitution of household consumption patterns in response to the price changes. In reality households would be expected to reduce their consumption of goods whose relative prices have increased and increase their consumption of goods whose relative prices have decreased. Taking this into account would reduce the real price impact on households". [25]

[24] National Institute of Economic and Industry Research 2007. The impact of carbon prices on Victorian selected household types – A preliminary analysis. Report for Brotherhood of St Laurence
[25] Department of Climate Change 2008 p 281

Table 3 Impact of carbon prices on household types [26]

Household type	**Utility adjusted carbon costs additional annual expenditure (2006 dollars)**		**Utility adjusted carbon costs % of annual expenditure (2006 dollars)**	
Carbon price — per tonne	$25	$50	$25	$50
Household with children where government benefits exceed 30% of income	417.30	834.50	1.0	2.0
Retired age pension households	331.20	662.50	1.2	2.4
Unemployed households	596.30	1192.5	1.6	3.2
Poor households	596.40	1192.80	2.3	4.6
Double income no children	1332.90	2665.70	0.3	0.6
High income tertiary educated	1225.00	2450.00	0.4	0.8

The Paper notes that "more detailed information on estimated cost impacts will be released later in the year when further modelling becomes available". ACOSS is concerned to ensure that this modelling is positioned to inform decisions about the design of the scheme and to appropriately affect its implementation.

8.2.2 Impact of structural changes

The Paper observes that "[t]he economy is very dynamic... [e]ven 20 years ago, it would have been difficult for anybody to precisely describe the state of the economy today." [27]

As a founding member of the Southern Cross Climate Coalition (along with the Australian Council of Trade Unions, the Australian Conservation Foundation and The Climate Institute), ACOSS has expressed the view that the transition to a low carbon economy presents significant challenges but, at the same time, affords significant opportunities for innovation, enterprise and employment. The labour and materials required to make the transition to an energy-efficient, low carbon economy should ensure widespread prosperity.

We make some remarks about workers, communities and regions in a subsequent section addressing strongly affected industries. With a view to the impacts of a CPRS on households, we note that structural changes to any industry generally impact most significantly on low income earners and low income households. It is most often the case that low income earners are low skilled workers. In regions that are strongly affected, the process of adjustment may mean significant investment to retool and attract new industry and to retrain or relocate workers.

The energy industry has undergone significant structural adjustment over the last 20 years. In the period 1985-86 to 1995-96 employment in the utility sector (electricity, gas and water) decreased by 44%. The numerical decrease over that period was 63,300, almost equivalent

[26] Australian Conservation Foundation, Australian Council of Social Service and Choice 2008. Energy & Equity - preparing households for climate change: efficiency, equity, immediacy
[27] Department of Climate Change 2008 p 227

to the total number employed in 2005-06 (67,400). Employment in the electricity supply industry increased from 35,500 to 42,400 (19.4%) over the period 2001-02 to 2005-06 [28] This level of dynamism has principally affected low income households, often in particularly defined regions. Some of this structural change may have been anticipated and planned for. At the level of households and communities much of it will have been collateral or accidental. The impacts of climate change and responses will affect disadvantaged communities disproportionately. We should plan and act to minimise dislocation as a result of adjustment.

8.4 Energy efficiency opportunities and challenges

The Paper suggests that "[t]he establishment of a carbon price under the scheme will provide incentives for households and businesses to increase energy efficiency, but additional policies to exploit energy efficiency opportunities can also contribute to emissions reductions." [29]ACOSS believes that strong incentives exist already, ahead of the CPRS and that work should begin now.

ACOSS, in conjunction with the Australian Conservation Foundation and Choice, has recently published a research report detailing the potential for improvements to household energy efficiency and outlining recommendations for action. [30] ACOSS recommends that significant investment in energy efficiency and climate proofing begin immediately.

The potential benefits of such a program include: maximising amenity and comfort; maximising efficient use of energy consumed; minimising consumption; minimising expenditure; minimising greenhouse gas emissions. The initial focus of such a program should be on identified low income households with high levels of consumption; low income households generally; and low income households in communities with particular features such as climactic extremes or unreliable energy supply.

ACOSS recommends that, commencing ahead of the CPRS, the Australian Government develop, fund and implement a program to retrofit housing stock to maximise thermal efficiency, minimise energy consumption, and ensure reasonable levels of amenity and comfort with a view to anticipated climate change, and that this program to focus initially on low income households in both the public and private rental markets.

ACOSS recommends that, commencing ahead of the CPRS, the Australian Government develop, fund and implement a program for low income households to facilitate the upgrade of basic equipment and appliances including for example, hot water systems and refrigerators, to best practice performance standards, with a view to mitigating against energy price increases, minimising consumption, and reducing greenhouse gas emissions

ACOSS recommends that commencing ahead of the CPRS, the Australian Government in conjunction with state and territory governments should develop and implement nationally consistent regulatory frameworks to ensure that best practice minimum energy performance standards are introduced and enforced for equipment and appliances, for building and construction, and for related materials and processes.

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[28] Australian Bureau of Statistics 2008. Electricity, gas, water and waste services Australia 8226.0 2006-07
[29] Department of Climate Change 2008 p 284
[30] Australian Conservation Foundation, Australian Council of Social Service and Choice 2008. Energy & Equity - preparing households for climate change: efficiency, equity, immediacy.

8.4.1 Market failures and energy efficiency

The Paper suggests that “a lack of access to capital markets and liquidity constraints may inhibit some households from upgrading their appliances, cars or other equipment if this involves significant up-front costs” [31] ACOSS understands this proposition to acknowledge that low income households, including the over 2 million Australians living in poverty, are not able (or would not necessarily choose) to borrow money to pay for improved energy efficiency. In the transformation to a low carbon economy the greatest market failure would be to leave these households in a high carbon era. The CPRS will generate resources sufficient to fund the up-front costs of energy efficiency improvements for low income households.

[31] Department of Climate Change 2008 p 285

Strongly affected industries (Chapter 10)

In most Australian jurisdictions, retail energy prices are increasing at rates well beyond both the general inflation rate and the Consumer Price Index. For example, in 2008, residential electricity prices will increase in New South Wales by 8.7%, in Victoria by 15.0% and in Tasmania by 15.7% (from January) and a further 3.9% (from July). Factors affecting retail prices for households include the price of input fuel (gas and coal), drought and related water shortages, network augmentation, new generation plant, the introduction of renewable generation to the grid and regulatory changes. Following a long period of price stability in the wholesale electricity market there is now increasing volatility and indications are that prices will trend to steep increases. The introduction of a CPRS may contribute to price volatility and will certainly contribute to price increases for most electricity delivered through the grid.

However, the electricity supply industry continues to be profitable. As a result of the establishment of the National Electricity Market (NEM) the ABS no longer reports on the industry by jurisdiction but rather by sector. This makes analysis of some aspects of the industry difficult. There are significant differences between jurisdictions in characteristics such as the mix of fuel types used for generation. Not all jurisdictions are included in the NEM (Western Australia and the Northern Territory remain outside).

For the year ended 30 June 2007, the electricity supply industry, aggregated and nationally, realised profitability of 12.8%. [32] Profit margins by sector for the same period were 13.6% for generation, 20.7% for transmission, 22.2% for distribution, and 1.2% for on selling electricity and electricity market operation.

ACOSS recommends against the inclusion of coal-fired generators of electricity in the category of strongly affected industries, principally because there is currently no effective competition for their product and because they can and are likely to pass increased costs on to consumers. We suggest that any continuation of the protections provided to these businesses will act as a disincentive to investment in clean technology, whether ‘traditional’ baseload and peaking plant, distributed forms of generation and/or renewable energy.

With regard to the criteria established by the National Emissions Trading Taskforce [33], ACOSS acknowledges that coal-fired electricity generators are not trade-exposed; are emissions intensive (although to varying degrees) and do have very large sunk costs. However, ACOSS suggests that the ability of coal-fired electricity generators to pass on costs is **not** “constrained by domestic competitors that face no commensurate increase in costs as a result of the scheme.” In most jurisdictions coal-fired plant is currently indispensable to the reliable and affordable supply of electricity. In Australia, for the year ended June 2007, more than 80% of electricity sent out to the grid was produced by coal-fired plant.

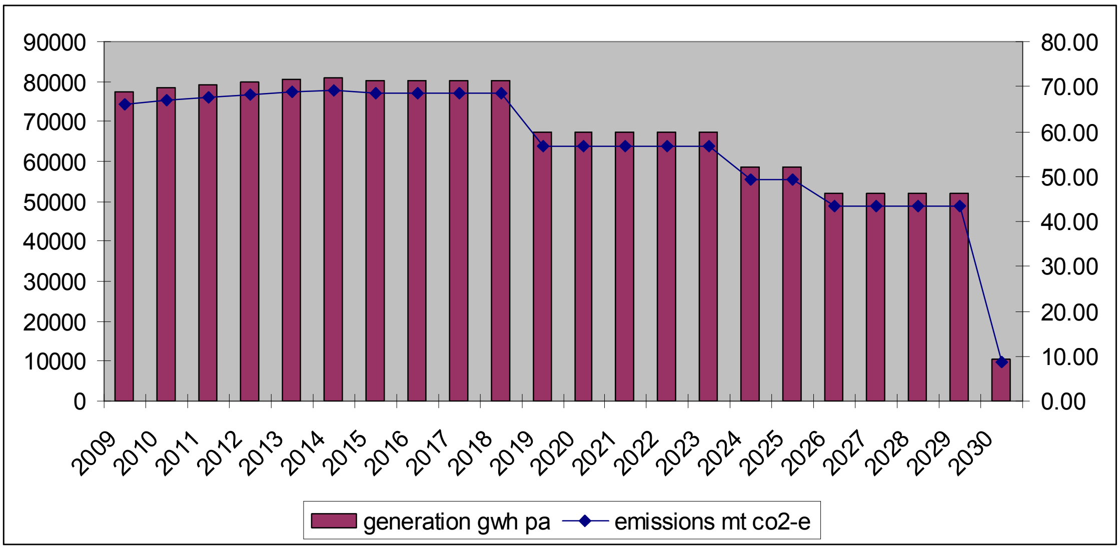
In New South Wales at 30 June 2007, 95% of installed generation (principal or scheduled) was coal-fired. The Australia Institute has recently analysed the output and emissions of seven coal-fired stations in the State and suggests that in the period through to 2030 both generation and emissions will increase by about 5% through to 2014, remaining steady

[32] Australian Bureau of Statistics 2008. Electricity, gas, water and waste services Australia 8226.0 2006-07
[33] Department of Climate Change 2008 p 342

before decreasing by 17% at 2019, 14% at 2023 and a further 80% at 2029. [34] The decreases in generation noted in this analysis are based on assessments of retirement of plant at the end of useful life.

Table 4 on page 21 and the charts reproduced on page 22 illustrate the dominant market position of coal-fired generation. The chart below illustrates the Australia Institute analysis of major coal-fired generation in New South Wales, its natural diminution over the next 20 years and thus the potential for demand management and a combination of clean generation technologies to gradually replace high-emissions coal-fired generation as the major source of electricity in New South Wales.

Chart 1 Coal-fired generation in New South Wales



Given the sunk costs in existing plant, the centrality of coal-fired generation to supply, increasing demand, and the very long lead time for establishment of new generation plant, it would seem extremely unlikely that much existing plant would be retired earlier than anticipated. Given the potential at least to pass through increased costs it would seem most unlikely that returns will be much reduced over the life of existing plant. We suggest that to the extent that returns are reduced, this is both a reasonably foreseeable risk of doing business and precisely the right signal for investors who have been seeking certainty with regard to future investments.

Unless the initial carbon price is struck significantly higher than currently anticipated, it is highly unlikely that electricity from existing coal-fired plant will become unsaleable.

Our understanding is that a carbon price would have to be well above $20/t in order to affect the merit order of generation such that coal-fired generation became more expensive than gas-fired generation. However, even if this were to happen, there is currently insufficient gas-fired capacity to substitute for coal-fired, and other alternatives are likely to take some considerable time to reach scale. It must also be noted that gas prices are increasing and

[34] Hamilton, C 2008 Carbon Liabilities of NSW Electricity Generators The Australia institute Research Paper No. 51, January

that for this among other reasons, most new gas-fired generation continues for be built for peaking.

ACOSS does acknowledge that there may be regulatory or other constraints affecting the ability of generators to pass increased costs through to end-users. ACOSS understands that the Ministerial Council on Energy (MCE) has agreed "to continue cooperative work on energy security and energy market reform, as directed by the Council of Australian Governments, in considering key energy sector issues raised by the introduction of a CPRS including investor confidence, retail price regulation... transitional assistance measures to coal-fired electricity generators, and practical issues such as regulatory and technological hurdles to implementation". [35]

The Paper proposes that, "ideally, there would be no regulatory impediments to the pass-through of reasonable carbon costs." [36]

With regard to the ability of generators to pass through increased costs, ACOSS suggests that in most states and territories the most significant constraint on prices is jurisdictional regulatory power. While there is no price 'cap' in NEM jurisdictions where full retail contestability is enabled for residential consumers, there is a standing offer around which the market operates. The methodology used to regulate prices ranges from absolute ministerial discretion through to rigorous, contested, public independent reviews. Market offers can and do include arrangements for tariffs higher than the standing offer (including for example for products such as green power).

Under the terms of the Australian Energy Market Agreement (AEMA) the Australian Government along with the states and territories has agreed "to phase out the exercise of retail price regulation for electricity and natural gas where effective retail competition can be demonstrated". [37] A process to test the effectiveness of competition has been developed by the AEMC and applied to two jurisdictions thus far: Victoria and South Australia. The South Australian review is not yet complete. However, the Victorian review of 2007 found that competition was effective in the jurisdiction and as a result the Victorian Government will cease regulation of retail prices for residential consumers from January 2009.

The MCE has requested the Australian Energy Market Commission (AEMC) to "undertake a review of the energy market framework in the context of the introduction of the enhanced Renewable Energy target and the CPRS". A first interim report is to be presented to the MCE for its meeting scheduled December 2008 but a final report is not due until September 2009. [38]

ACOSS suggests that any decisions regarding the provision of assistance to coal-fired generators be delayed until the MCE has received and responded to this final report.

[35] Ministerial Council on Energy Communiqué Melbourne 31 July 2008
[36] Department of Climate Change 2008 p 430
[37] Australian Energy Market Agreement (AEMA) June 2006 accessed 19 September 2008 at http://www.mce.gov.au/assets/documents/mceinternet/AmendedAEMA_Signature_and_Text20060619141403.pdf
[38] Ministerial Council on Energy Terms of Reference – AEMC Review of Energy Market Framework in Light of Climate Change Polices (undated)

With regard to the provision of assistance for business it is essential that any assistance be made on the basis of conditionality and additionality, be limited and specific to projects directed to improving plant efficiency and/or reducing greenhouse gas emissions, and be provided through public, transparent and accountable processes.

ACOSS suggests that any assistance to strongly affected industries and entities including coal-fired generators, as with other transitionary responses to climate change, be made through the through the Climate Change Action Fund, and through public, transparent and accountable processes.

Workers, communities and regions

See next section

Climate Change Action Fund

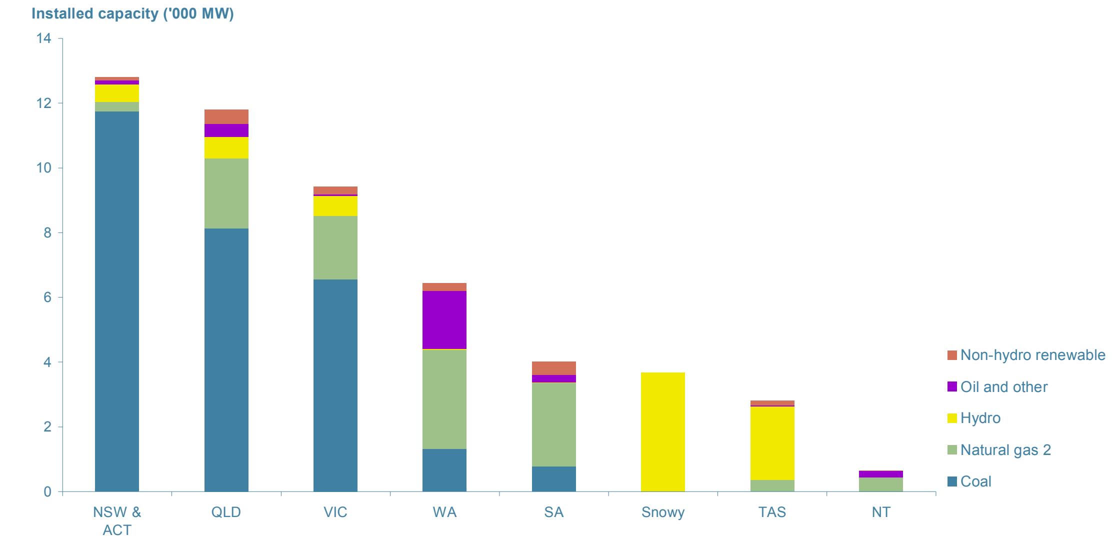
Table 4 Electricity generation – Plant currently installed: compiled from data published by the Energy Supply Association of Australia (ESAA) [39]

Principal generation plant installed (MW) at 30 June 2006														
		hydro	**pump store**	**steam**				**gas turbine**			**combined cycle**		**recipro-cating**	**wind**
				black coal	brown coal	natural gas	multi fuel	natural gas	oil products	multi fuel	natural gas	coal seam methane		
	Total													
NSW & ACT	12229.00	109.00	240.00	11670.00	0.00	0.00	0.00	0.00	50.00	0.00	160.00	0.00	0.00	0.00
	100.00	0.89	1.96	**95.43**	0.00	0.00	0.00	0.00	0.41	0.00	1.31	0.00	0.00	0.00
Victoria	8592.00	526.00	0.00	0.00	6555.00	510.00	0.00	1001.00	0.00	0.00	0.00	0.00	0.00	0.00
	100.00	6.12	0.00	0.00	**76.29**	**5.94**	0.00	**11.65**	0.00	0.00	0.00	0.00	0.00	0.00
Queensland	10412.00	144.00	500.00	8055.00	0.00	132.00	0.00	403.00	338.00	0.00	215.00	625.00	0.00	0.00
	100.00	1.38	4.80	**77.36**	0.00	1.27	0.00	3.87	3.25	0.00	2.06	6.00	0.00	0.00
South Australia	3471.00	0.00	0.00	0.00	770.00	1280.00	0.00	605.00	113.00	0.00	663.00	0.00	40.00	0.00
	100.00	0.00	0.00	0.00	**22.18**	**36.88**	0.00	**17.43**	3.26	0.00	**19.10**	0.00	1.15	0.00
Western Australia	3474.60	2.00	0.00	1370.00	0.00	0.00	880.00	291.00	83.00	586.00	240.00	0.00	0.00	22.60
	100.00	0.06	0.00	**39.43**	0.00	0.00	**25.33**	8.38	2.39	**16.87**	6.91	0.00	0.00	0.65
Tasmania	2582.75	2278.00	0.00	0.00	0.00	240.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	64.75
	100.00	**88.20**	0.00	0.00	0.00	9.29	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.51
Northern Territory	475.06	0.00	0.00	0.00	0.00	0.00	0.00	242.30	30.00	0.00	130.80	0.00	71.96	0.00
	100.00	0.00	0.00	0.00	0.00	0.00	0.00	**51.00**	6.31	0.00	**27.53**	0.00	15.15	0.00
Snowy Region	3676.00	3676.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	100.00	100.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	44912.41	6735.00	740.00	21095.00	7325.00	2162.00	880.00	2542.30	614.00	586.00	1408.80	625.00	111.96	87.35
	100.00	15.00	1.65	**46.97**	**16.31**	**4.81**	1.96	**5.66**	1.37	1.30	3.14	1.39	0.25	0.19
includes scheduled generators only, excludes embedded and non-grid private generators														

[39] Energy Supply Association of Australia 2008 Electricity Gas Australia 2008 Melbourne

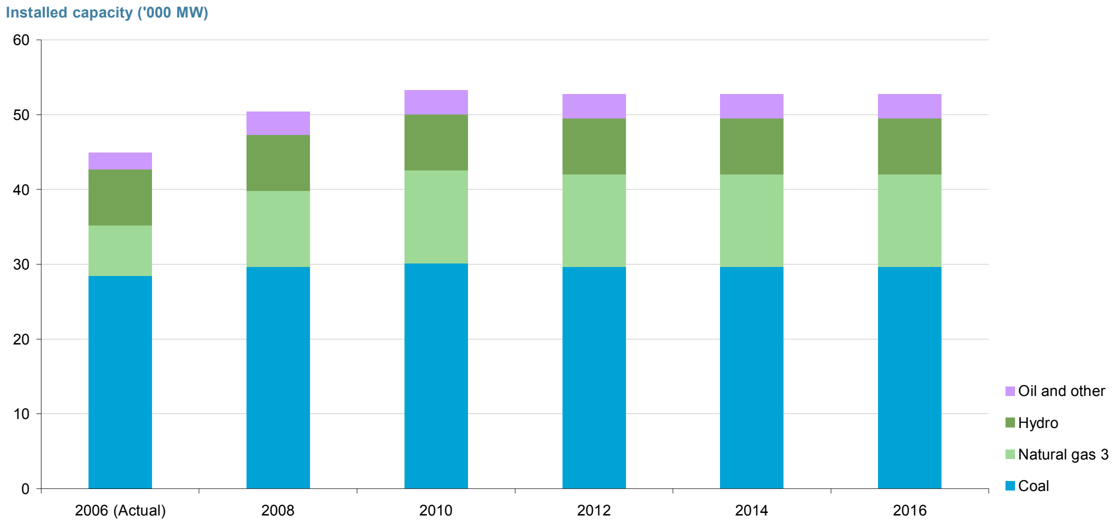
Charts reproduced from Electricity Gas Australia published by the Energy Supply Association of Australia [40]

Chart 2.1 **Installed capacity by fuel type (MW) at 30 June 2007** [1]



Source: esaa, Clean Energy Council, NEMMCO, company annual reports
Notes: 1. Includes total principal, embedded and non-grid generation capacity.
2. Natural gas capacity includes coal seam methane.

Chart 2.3 **Forecast of principal generation capacity - 2006 to 2016** [1,2]



Source: esaa, company annual reports, NEMMCO Statement of Opportunities 2006, WA Statement of Opportunities 2006, NT Utilities Commission 2006 Annual Power System
Notes: 1. Forecast is based on projects with advanced planning status or projects under construction. Projects with a proposed status have not been included.
2. Excludes embedded and non-grid private generation capacity. 3. Natural gas capacity includes coal seam methane.

[40] Energy Supply Association of Australia 2008

Transitional issues (Chapter 12)

Climate Change Action Fund

Rather than industries, ACOSS is particularly concerned about strongly affected workers, communities and regions. As Minister Wong has remarked “[t]he introduction of emissions trading will constitute the most significant economic and structural reform undertaken in Australia since the trade liberalisation of the 1980s.”

The Paper suggests that “structural adjustment measures already in existence provide a means to assist affected workers and regions, additional support may be required in some instances”. ACOSS is fully supportive of policies and programs that ease the transition for workers, communities and regions to a low carbon economy. However, while there may indeed be measures already in existence, the Climate Change Action Fund should be directed to address structural adjustment necessitated by climate change and responses, including the CPRS. Climate change will likely prove to be a concern rightly regarded as whole-of-government and whole-of-economy. Where the need for assistance to adjust is attributable to climate change and where the resources of the Fund permit, the Fund should be used for this purpose. The Fund should be administered with diligence, probity and transparency.

Principles to assist low income households adjust to a low carbon economy

Preamble:

1. All Australians, including low income and disadvantaged Australians, will benefit from comprehensive and timely policies that aim to reduce greenhouse gas emissions, including an emissions trading scheme and investment in measures that assist households to become more energy efficient.

   If action is delayed, adjustment will be more economically and socially costly.

2. However, low income households will bear a disproportionate share of the adverse impacts of adjustment including through price increases for energy, fuel, and other essential goods such as food.

   Prices for these essential goods have risen substantially in recent years and many low income households have already experienced a decline in their living standards.

   The Government should acknowledge that the intended outcome of measures such as an emissions trading scheme and the potential outcome of measures such as mandatory targets for renewable energy will be to increase prices for essential goods and services, at least in relative terms, and at least in the short to medium term. Efficiency gains and reduced consumption may offset these cost increases but this is not necessarily the case.

   The Government has committed to using all of the revenue it generates from emissions trading to assist households and businesses make the transition to a clean energy future. This should mean that sufficient funds are available to afford measures that require financial outlays.

   Some of the measures that are necessary to support low income households must be commenced before emissions trading begins and before revenue begins to flow. Arrangements should be made to enable resources to be made available as required.

3. More than 2 million Australians live on or below poverty level incomes, and those who derive income from income support payments and/or low fixed wages have little or no capacity to absorb further increases in the cost of essentials without facing deeper financial hardship.

   Low income households generally have limited capacity to invest in energy efficiency measures, and where they rent accommodation, they also have limited control over significant factors that affect energy consumption (for example whether the home is adequately insulated).

Principles:

1. Low income Australians (at least the bottom 40% of households by income) should be better off overall as a result of Government policies to reduce greenhouse gas emissions:

The Government should specifically guarantee that no group of low income households (classified by household type, income source and income level) need be financially worse off.

That is, low income households will be assisted to make realistic adjustments to their energy use and compensated to the extent that they are unable to do so due to their incomes or other factors that limit their control over energy consumption (such as housing stock or tenure and energy embedded in essentials such as food).

2. A climate change adaptation and compensation strategy for low income households should be built on three pillars:

   (A) Measures that improve household energy efficiency and assist to minimise consumption of energy including through capital assistance;

   (B) Fair energy tariff systems and appropriate concession arrangements;

   (C) Cash compensation through the social security and tax systems to ensure that essential goods and services do not become less affordable.

   The Government should collect and publish timely data on estimated and actual price changes as they affect different types of households including the range of low income households, both before and after the implementation of significant measures such as an emissions trading scheme.

   Provision should be made for adjustments to compensation where it is found that groups have been under-compensated.

Energy efficiency

3. Significant effort and investment must be commenced immediately to improve energy efficiency and reduce energy consumption wherever possible, including by: addressing awareness and behaviour; improvements to housing stock; the introduction of appropriate standards for buildings and appliances; and upgrades of equipment and appliances to meet best practice standards for buildings and appliances.

4. Priority should be given to low income households with the highest energy costs in the allocation of capital assistance to help minimise energy use.

   These measures should include subsidies and flexible repayment options, and full subsidies for equipment required by low income households with unavoidably high energy costs (for example, due to household composition, medical conditions etc).

Fair energy tariffs and concessions

5. The regulation of energy markets should incorporate a requirement for fair household tariffs. This could be achieved by maintaining a standard ‘affordable’ tariff for basic consumption and progressively raising the cost of energy, through inclining block pricing, for those who use the most. This would benefit low income households whose energy use is typically below average.

6. Energy and transport concession arrangements for low income households should be reformed to remove inequities and ensure that that all households are able to afford a basic sufficiency of energy and public transport services:

   All low income recipients of income support payments (whether pensions or allowance payments) should receive equivalent support based on their energy consumption and transport needs.

   Subsidies, concessions and rebates should generally be calculated as a percentage of costs incurred (for example, half fares on buses) up to an indexed ceiling.

   Specific subsidies or program enhancements should be provided to households with unavoidably high energy costs (for example, due to medical conditions such as diabetes).

Cash compensation

7. Compensation for cost increases, including increases in the price of petrol under an emissions trading scheme, should be through cash payments and income tax reductions targeted at low income households to allow them to choose/substitute what works best for them to adjust their energy consumption.

8. The full cost of price increases faced by different groups of people on low incomes as a result of an emissions trading scheme and other Government policies to reduce greenhouse gas emissions should be compensated through the social security and tax systems:

   The calculation of compensation payments should take account of variations in spending and saving patterns among the different low income groups.

   To ensure that compensation does not add unnecessary complexity to the tax and welfare systems, disturb relativities between payments, or encourage higher energy use, variations in the level of compensation for different groups of low income households should be limited to a small number of factors that unavoidably influence energy use, such as household size.

   Apart from these variations in compensation levels, compensation for all groups should be based on that required by the groups facing the highest cost increases.

9. Where households do not receive income support payments or more than the ‘minimum’ rate of Family Tax Benefit (Part A), and do not pay income tax (as with, for example, some recently arrived migrants), compensation payments may need to be delivered outside the social security and tax systems, taking into account the relative financial circumstances (including income and assets) of each group.

10. Compensation should be permanent, and should increase in a timely manner along with increases in the average costs arising from further policy measures to reduce greenhouse gas emissions.