



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Christine Milne
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Milne

Please find attached a response to your costing request, *Ending compensation to coal-fired power stations* (letter of 20 August 2013).

The response to this request will be released on the PBO website (www.aph.gov.au/pbo).

If you have any queries about this costing, please do not hesitate to contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

/ September 2013

COSTING – ELECTION CARETAKER PERIOD

Name of proposal to be costed:	Ending compensation to coal-fired power stations
Summary of proposal:	<p>The proposal would abolish the provision of free carbon permits to emissions intensive coal-fired electricity generators under the Energy Security Fund (ESF).</p> <p>The proposal would have effect from 1 October 2013.</p>
Person/party requesting costing:	Senator Christine Milne, Australian Greens
Date costing request received:	20 August 2013
Date costing completed:	1 September 2013
Date of public release of policy:	26 September 2012
Additional information requested:	<p>On 21 August the PBO asked the Office of Senator Milne whether free ESF permits for 2013-14 that were scheduled to be issued on 1 September 2013 (in the caretaker period) should be covered by this costing.</p>
Additional information received:	<p>On 31 August the Office of Senator Milne confirmed that the costing should be undertaken on the basis of a start date of 1 October 2013 and that the ESF permits issued on 1 September 2013 should not be covered by this proposal.</p>
Agencies from which information was obtained:	The Treasury

Costing overview

This proposal is expected to increase the underlying cash balance by \$625 million and increase the fiscal balance by \$515 million over the 2013-14 Budget forward estimates period.

The underlying cash impact reflects an increase in receipts from sales of carbon permits over this period. The fiscal balance impact reflects a decrease in expenditure on free permits in 2014-15.

The underlying cash balance impact of this proposal differs to the fiscal balance impact because of the timing associated with cash receipts from the sale of permits. Revenue from permit sales is recognised on a fiscal balance basis in the vintage year of the permit that is sold. On an underlying cash balance basis, permit revenue is recognised when cash is received. Permit auctions for 2014-15 permits are scheduled to occur in 2013-14, 2014-15 and 2015-16.

This proposal would have no impacts beyond the forward estimates period as no free permits are issued under the ESF after 2014-15.

POLICY COSTING – ELECTION CARETAKER PERIOD

Departmental savings from cancelling free permits for emissions intensive coal-fired electricity generators are expected to be minimal as other free permits will continue to be administered under the Jobs and Competitiveness Program. For this reason, departmental savings have not been included in this costing.

This costing is considered to be of medium reliability as it is dependent on future market carbon prices.

Table 1: Financial implications (outturn prices)^(a)

Impact on	2013-14	2014-15	2015-16	2016-17
Underlying cash balance (\$m)	-	415	210	-
Fiscal balance (\$m)	-	515	-	-

(a) A positive number for the fiscal balance indicates a decrease in expenses in accrual terms. A positive number for the underlying cash balance indicates an increase in revenue in cash terms.

Key assumptions

Assumptions outlined in the costing request:

- The proposal would have effect from 1 October 2013.

Assumptions made by the PBO:

- The total emission cap under the floating price arrangements in 2014-15 is assumed to be unaffected by this proposal. As a result, an equivalent number of permits that would have been provided free under the ESF would be sold at auctions in 2014-15 and in 2015-16 in order to meet the emissions cap for 2014-15.
- The carbon prices used to undertake this costing are the same as in the Pre-election Economic and Fiscal Outlook (PEFO) (\$6.20 in 2014-15 and \$12.50 in 2015-16). PEFO notes that “the carbon price path to 2020 is subject to considerable uncertainty.” PEFO also states that these estimates reflect:
 - In the forecast year of 2014-15, a three-month average of futures market prices; and
 - In the projection year of 2015-16 a linear transition from the market price in 2014-15 to the longer-term modelled price of \$38 in 2019-20 from the *Strong Growth, Low Pollution* report.
 - As noted in PEFO “the carbon price path to 2020 is subject to considerable uncertainty”.

Methodology

This costing has been estimated by calculating the impact of not providing the free permits under the ESF for 2014-15, and instead selling an equivalent number of permits at permit auctions in 2014-15 and 2015-16.

All figures in this costing have been rounded to the nearest \$5 million.

Data sources

Information on the amount of expenditure on free permits the Energy Security Fund was obtained from the Treasury.