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21 September 2011

Committee Secretary
Joint Select Committee on Australia's Clean Energy Future Legislation
PO Box 6021
Parliament House
CANBERRA ACT 2600

email: jscacefl@aph.gov.au

Dear Sirs

**Submission to the Joint Select Committee
on Australia's Clean Energy Future Legislation**

Thank you for the opportunity to make a submission on this important issue. A report was presented to Council on this issue on 20 September 2011 which I have attached to assist you with the inquiry. The report outlines the potential impacts of a Carbon Pricing Scheme on Council and also identifies various issues where the detail is not yet in place for Local Government to make an informed assessment.

As you will see from the report there is an incremental and disproportionate impact on Local Government costs which ultimately will need to be recovered from rate payers through higher rates with potentially no environmental benefits.

In its current form, the legislation imposes significant costs on Local Government. To accelerate abatement activities, which will achieve environmental outcomes and reduce pressure on the rate payers, assistance under the Clean Energy Future package is required. Currently, the detail of how Councils will be assisted is sparse, most assistance appears to target low income households and private businesses.

I commend the Waste and Sustainability Improvements Program which provides funding to implement environmental improvements across all areas of Council and suggest that similar financial assistance could be factored into the Clean Energy Future package to enable landfill reform.

Council also supports and reiterates the issues raised in the submission produced by the Australian Local Government Association.

I trust the attached report will provide a snapshot of how the proposed package will impact on Local Government.

Yours faithfully

A handwritten signature in black ink, appearing to read "Russ Pigg".

Russ Pigg
General Manager

REPORT OF GENERAL MANAGER
RESOURCES AND RESERVES COMMITTEE

TUESDAY, 13 SEPTEMBER 2011

ASSISTANT GENERAL MANAGER

1. Implications of the Proposed Carbon Pricing Scheme

File 8596E

PURPOSE OF THE REPORT

To outline the potential implications to Council operations of the Commonwealth Government's proposed carbon price scheme.

RECOMMENDED that:

- a) Council seek urgent clarification of aspects of the scheme that are currently identified as uncertain, and progressively refine anticipated impacts and response strategies as better information becomes available, including -
 - i) whether local government in NSW will be classified as a corporation for the purposes of the scheme's legislation, or excluded from coverage,
 - ii) whether waste facility emissions will be calculated as gross or nett,
 - iii) whether the prescribed distance threshold will be for waste facilities,
 - iv) whether the draft Bill will pass through Federal Parliament and/or remain essentially as proposed,
 - v) after the three years of the fixed price, how the market-based carbon price will create direct or indirect costs to Council.
- b) Council advocate with relevant Members of Parliament, Ministers and forums on the key issues identified by this report.
- c) The Sustainable Shoalhaven Committee consider further reports on -
 - i) a revised and refocused Energy Savings Action Plan as a key immediate response measure,
 - ii) carbon emission mitigation opportunities relevant to Council's operations,
 - iii) grant funding opportunities through the new Clean Energy Future programs.
- d) The Budget Working Party consider a further report in relation to funding options for forecast carbon price scheme impacts, including -
 - i) direct cost recovery, rate revenue, and fees and charges, and

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- ii) an appropriate future regime of waste disposal fees to address the forecast of whole of life costs of landfill based on future emissions and future carbon price shifts.
 - e) The Business and Jobs Growth Advisory Committee consider a further report on wider business and community support programs that may be appropriate for Council to facilitate in the context of the broad impacts and behaviour change likely to arise from the carbon price scheme.
 - f) The inclusion of forecast carbon price impacts in Council's Long Term Financial Plan be further considered prior to the development of the 2012/13 Operational Plan.
 - g) Council work with other councils in the region to encourage them to move toward landfill facility gas extraction, in order to minimise the collective Council's exposure to liabilities through the carbon price scheme "prescribed distance" provisions.
 - h) Council actively participate in available local government forums in developing responses to the carbon price scheme and in particular consider opportunities for partnership and alliance projects that can support Council's local objectives.
 - i) Council seek assurance from the Independent Pricing and Regulatory Tribunal that the cost impacts of the carbon price scheme will be reflected in future rate peg setting analysis and determinations.
 - j) The management of carbon emissions and related responses and initiatives be considered as a key issue in the review of the Community Strategic Plan in 2013.

COMMUNITY STRATEGIC PLAN

- Objective:** 2.3 - A community that seeks to reduce global warming impacts and increase our ability to adapt to the effects and impacts of climate change.
- Strategy:** 2.3.2 Develop and implement a corporate carbon emissions audit, reduction and reporting scheme to reduce the City's carbon footprint.

DELIVERY PROGRAM

- Activity:** 2.3.3.6 Monitor legislative change and local government best practice and confirm Council's approach to emissions monitoring, control and reporting.

OPTIONS AND IMPLICATIONS

Council can consider a range of potential actions in relation to the carbon price scheme introduction, including:

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- Monitor further announcements and details relating to the scheme,
 - Refine the forecasting of the scheme's impact on Council,
 - Develop the response actions and integrate them into the CSP, Resourcing Strategy and Delivery Program/Operational Plan framework – actions may include initiatives to change some of the ways Council operates and to identify sources of funds to meet additional costs to Council's operations
 - Lead in the community and communicate and advocate Council's position.

REPORT DETAILS

Introduction

On 10 July 2011 the Commonwealth Government's carbon pricing scheme (the scheme) was released, formally titled the Clean Energy Future package. Substantial information is available on the Clean Energy Future (CEF) website. It is understood that the associated legislation will be debated by Parliament in September 2011.

The scheme is directed to the reduction of Australia's carbon pollution, supporting the Government's aim to cut pollution by at least 5 per cent (compared with 2000 levels) by 2020. For this to be achieved, nett expected pollution will need to be cut by at least 23 per cent by 2020. The Government's long-term target is to cut pollution by 80 per cent below 2000 levels by 2050.

This report does not seek to address the science of climate change or the appropriateness of the Government's policy position. It simply responds directly to the current Commonwealth policy and legislative initiatives, which have the potential both for significant impact on local government and to reinvigorate Council's strategies towards energy efficiency and alternative energies.

By way of context, Council's total 'greenhouse gas emissions' were calculated in July 2011 at 28,730 tonnes per annum. The sources of these emissions are electricity supply to buildings and facilities (80%), fuels (17%) and LPG/non-transport gas (3%). In addition, Council's waste landfill generates 49,440 tonnes per annum, however, after the extraction of gas for electricity generation the nett emissions are 13,260 per annum. This report addresses the direct and indirect nature of these emissions and the resultant impacts of the carbon price scheme on Council.

General Overview of the Carbon Pricing Scheme

The aim of the scheme is to influence commercial and consumer behaviour away from emissions-intensive processes and products to lower emission alternatives.

Businesses covered by the scheme will report on their emissions and buy and surrender to the Government one permit for every tonne of emissions that they produce, including:

- Carbon dioxide
- Methane
- Nitrous oxide
- Perfluorocarbon from aluminium smelting.

A significant percentage of this revenue will be fed back to business and the community through tax reform, other direct household assistance and new programs supporting a transition to energy efficiency and renewable energy.

Households and small businesses will have no direct obligations under the scheme and fuel used by motorists, small business vehicles and tradespeople is exempt. However, indirect impacts are expected to flow from those paying for carbon permits to the consumers of their products, including Council.

Greenhouse emissions from the following sources will be covered by the carbon price:

- Stationary energy
- Non-legacy waste (ie, deposited after 1 July 2012)
- Industrial process
- Fugitive emissions
- Heavy on-road vehicles (from 1 July 2014).

Legislation to establish the scheme will go before Parliament in September 2011 and the scheme is expected to commence operation on 1 July 2012.

The initial carbon price will be set at \$23 per permit (ie, per tonne of emissions), and this will rise to \$24.15 in 2013/14, then \$25.40 in 2014/15.

On 1 July 2015, the carbon price will transition to a fully flexible price under a full emissions trading scheme, with the price determined by the market. In this phase the minimum price will be \$15 (to increase at 4% plus CPI per annum) and the maximum price will be \$20 above the expected international price (to increase at 5% plus CPI per annum).

Is Council covered?

In short, it is too early to ascertain whether Council will definitely be captured by the scheme with regard to direct waste emissions. However, Council will experience the impact of direct and indirect costs from the scheme in several forms.

To determine whether Council is captured directly by the scheme it is necessary to consider the 'reporting thresholds'. These thresholds have been defined at the facility level and at an organisational or corporation level by the National Greenhouse and Energy Reporting Scheme (NGERS):

- Emissions must be reported separately for each facility that emits 25 kilotonnes or more of greenhouse gases (CO₂ equivalent), or produces or consumes 100 terajoules or more of energy per year. There is an exception, to capture landfill facilities located within a "prescribed distance" of other large landfills, where the subject facility has 10 kilotonnes or more emissions – this has important implications for Council.
- An organisation must report when total emissions from all facilities exceed 125 kilotonnes of greenhouse gases (CO₂ equivalent), or produce or consume 500 terajoules or more of energy.

If the facility threshold is exceeded but the corporation threshold is not exceeded, then only the emissions from the facility need to be reported. If the reportable emissions from the facility are captured by the scheme, then permits will need to be purchased for the emissions from that facility – not the entire organisation. Further, 'legacy waste emissions' are included for the purposes of reporting under the scheme, although permit purchase is only required in relation to non-legacy emissions.

There are a number of ways that Council will or may be affected by the carbon pricing scheme. These impacts are outlined in further detail in Attachment A.

Key Issues

What we know

Energy

The cost of electricity is expected to rise by 10% and the cost of gas by 9%. It is estimated that this will create a cost increase to Council of \$285,009 per year for 2012/2013, over and above any other power cost increases. This is an indirect cost, and the estimate assumes that Council's suppliers will pass on their direct costs, and also that Council's energy consumption continues relatively unchanged.

Waste

The scheme only applies in respect of emissions from waste deposited after 1 July 2012, and not to pre-scheme 'legacy' emissions, although reporting is required in relation to all emissions. If the scheme is based on gross emissions (ie, before the extraction of gas for electricity generation), then the West Nowra landfill will be captured by the scheme and Council will need to report and buy carbon permits in respect of the facility.

If the scheme is based on net emissions (ie, not counting gas emissions extracted), but the "prescribed distance" is more than 80km, the West Nowra landfill will be captured by the scheme (due to Wollongong's landfill at Whytes Gully).

Pending confirmation of both the 'nett or gross' question and the 'prescribed distance' trigger factor, any impact of the scheme on Council will be a direct cost. The most likely scenario is that Council's landfill site is captured, but subject to nett emissions liability for post-2012 waste only.

On that basis it is estimated that permits will initially cost an additional \$40,000 (then \$77,000, then \$110,000) per year. However, when the whole-of-life emissions (for approximately another 40 years) are also considered, and to be paid for by current users during the active landfill life (only 15 years), it is estimated that \$1 million per year will need to be achieved in additional revenue in order to pay for future carbon permits through to 2055.

This estimate:

- is in 2012/13 dollars, but will need to be indexed in future years to reflect future carbon price movements (which themselves are unpredictable, albeit limited within the wide future 'floor and ceiling' price range proposed), and
- assumes (conservatively) that Council will cease the capture of emissions from the landfill at the same time as the landfill operation ends, with a

resultant quantum increase in carbon permit costs from that point onwards. The feasibility and cost-benefit of continuing the gas capture operation beyond the landfill closure should be carefully considered in the light of forecast carbon permit costs well into the future.

The determination of exactly how to translate the carbon price impact of each tonne of waste placed in landfill 'today' into an equitable and sustainable fee regime over the remaining active life of the landfill will need further detailed analysis. Early modelling confirms that a reserve fund surplus would be generated in the years up to the landfill closure, with the available funds then being used over the later years to pay for carbon permits until the point where the landfill ceases to be captured by the scheme.

It may be possible to receive some carbon credits against any scheme liability for Council, for the conversion of legacy waste to energy, however, this has not been assumed and included in the financial impact forecasts at this stage.

Fuel

From July 2012 fuel used by Council's non-transport activities (e.g. bobcats, major plant, generators) could cost an extra \$8900 per year, as a direct cost imposed through reduced Diesel Fuel Excise Rebate, ie a carbon price equivalent.

From July 2014 fuel to run our heavy transport fleet (vehicles over 4.5 tonnes weight) will be subject to the carbon price (apparently irrespective of facility or organisation threshold reporting). This could be a direct cost of \$25,000 per year in 2011/12 terms.

CPI effect

The cost of goods and services purchased by Council programs and projects is expected to increase by approximately 0.7% as an indirect impact through forecast impact of the scheme on CPI. Council's annual operational expenditure that is exposed to CPI-related indexation will increase by an estimated \$760,000 per year. Note: Council's actual cost escalations are typically greater than CPI, but for these purposes the effect of the carbon price on CPI is assumed to translate to the same impact on Council's operational costs.

Total potential cost impacts

Based on the best informed assumptions at this time, additional cost impacts to Council from the carbon price scheme may be in the order of \$1.1 million per annum to General Fund operations, assuming no change in consumption, operations or behaviours. A further \$1 million per year may be added to waste operations costs, funded directly by Council's separately identified waste operations revenue.

Uncertainties

Given the incomplete detail on aspects and interpretations of the scheme at this stage, the following issues require confirmation:

- whether local government in NSW will be classified as a corporation for the purposes of the scheme's legislation, or excluded from coverage (as it was for earlier Commonwealth IR legislation) – *assume local government is included in the scheme*
- whether Council's West Nowra landfill facility will be captured by the scheme – *assume worst case, yes, however, irrespective of the landfill outcome all of the*

other non-waste impacts of the scheme will be either direct or indirect and unavoidable

- *whether waste facility emissions will be calculated as gross or nett – assume nett because there would be no incentive to capture and re-use gas emissions if carbon permits are based on gross emissions (gross emissions basis is the worst case)*
- *what the prescribed distance threshold will be for waste facilities – assume worst case, ie West Nowra is covered and required to report and purchase permits at the 10 kilotonne threshold*
- *whether the draft Bill will pass through Federal Parliament and/or remain essentially as proposed – assume it will proceed, basically as proposed*
- *after the three years of the fixed price, how the market-based carbon price will create direct or indirect costs to Council – forward forecasting should be prudent rather than optimistic, but further analysis of the potential price range and how this might reflect in the Long Term Financial Plan, is needed.*

Clean energy support programs

The Government's information releases outline a number of initiatives for re-investment of carbon price revenues. Further detail on these programs is available on the CEF website, however, they include:

- Clean Energy Finance Corporation – commercial, deployment, technologies, renewable focus
- Australian Renewable Energy Agency – competitive grants programs, rolls up many existing schemes, \$3.2bn of current funding, may have future funds from scheme dividends
- Industry and community assistance – grants to small-medium business and community groups, through NGOs working in partnership; Clean Energy Skills Program
- Low Carbon Communities program – includes LG and community organisations – buildings, facilities, street lights.

These programs may well offer significant partnership opportunities for Council to advance energy efficiency, renewable energy and related initiatives, in turn reducing Council's exposure to the carbon price impacts to some extent.

Resourcing Implications – Financial, Assets, Workforce:

At this stage, and subject to further details and fully informed analysis, it appears that the financial impact of the carbon price scheme could be over \$900,000 per annum to Council's General Fund operations, with a further \$960,000 per annum possible in waste operations.

While it is assumed the cost impacts to waste operations would be directly recovered through user charges, the funding of the General Fund cost impact will be more challenging. This will require examination of options including:

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- reduced energy consumption and increased generation of renewable energy, with the possible support of CEF related grant and partnership funding
 - further operational savings and service review to fund costs from the existing operating budget
 - increased application of user pays charges to services
 - rate revenue increases, above those currently anticipated in the Long Term Financial Plan, possibly above the future rate peg setting.

While the Independent Pricing and Regulatory Tribunal may include the impacts of the carbon price scheme in its future rate pegging determinations, this only relates to revenue derived from rates and thus is unlikely to enable full funding of the scheme's estimated cost impacts through rates charges within the rate peg setting.

The forecast impacts of the scheme will likely drive the early review of high energy consuming and/or direct carbon price exposed Council buildings, plant and equipment, and a search for alternative options for service delivery and/or design and procurement.

No direct impacts on workforce resources are anticipated at this time. The various dimensions of the scheme's impact may lead Council to consider, earlier than may otherwise occur, the engagement of a specialist staff role focussed on carbon management, efficiency, audit and related areas.

Community, Environment (ESD), Economic and Governance Impact:

The impacts of the carbon price scheme on Council's operations will be potentially significant. The scheme is intended by the Government to drive widespread behaviour change in the Australian community towards lower carbon emissions based on the targets outlined at the start of this report. This will demand Council's community leadership towards the low-carbon economy goal of the scheme.

The scheme could lead to flow-on effects in many aspects of the Community Strategic Plan's objectives and strategies, including attitudes to private and community transport, non-motorised transport modes, sustainable housing and commercial building construction, carbon farming and renewable energy initiatives and reduction of waste to landfill.

While debate on the environmental science and the need for and benefits of this particular kind of scheme may continue, and immediate results are unlikely to be evident locally, the scheme is part of global governments' responses to the effect of carbon emissions on global warming.

CONCLUSION

Numerous uncertainties remain at this stage and impacts on Council can only be estimated, however, it is clear the carbon price scheme will generate significant direct and indirect cost impacts. There are likely to be changes in service provision, operational

practice, asset and plant acquisition and management and revenue approaches in response.

Integration and modelling of the anticipated impacts on Council's financial sustainability will be required, together with pro-active measures to minimise and address impacts and opportunities.

Council may choose to pursue advocacy options on the issue, focussing on the current uncertainties and the fundamental cost impact of the scheme on local government operations, and ultimately ratepayers and citizens.

R.T. Donaldson
ASSISTANT GENERAL MANAGER

R.D Pigg
GENERAL MANAGER

