

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

4 – 6 June 2013

Question: BET 57

Topic: Advanced Auctioning of Carbon Permits

Hansard Page: Wednesday 5 June 2013, Page 78-79

Senator CORMANN asked:

Senator CORMANN: Mr Heferen, your colleague Mr Ray earlier today directed me to you to discuss the specifics of carbon tax revenue assumptions. Specifically, what I am interested in is the revenue over the forward estimates that comes from advance auctioning of permits down the track. As I understand it, and you might just be able to confirm that for us, you are accelerating the pace of advance auctioning of carbon permits in as much as it has doubled in this year's budget compared with what was previously envisaged. Is that right?

Mr Heferen: I might have to turn to Mr Brake for some assistance on that.

Mr Brake: A re-profiling of the advanced auctions: I am not sure if I have right in front of me exactly how much that was.

Senator CORMANN: Can I put it to you and then you might say whether that sounds right or that sounds wrong? As I understand it, the initial intention was for one-sixteenth of permits to be auctioned three years in advance; that is now going to be one-eighth. It was supposed to be one-sixteenth of permits two years ahead; that is now one-eighth. It was supposed to be one-sixteenth of permits one year ahead and that is also now one-eighth, hence the doubling. And you are now looking at 50 per cent of permits to be sold and purchased in the actual vintage year. Does that sound about right?

Mr Brake: That is correct.

Senator CORMANN: Which means that, of course, in 2013-14 you would expect to advance sell permits for 2016-17 and in 2014-15 you would expect to advance sell permits from 2017-18 onwards. That is right?

Mr Brake: That is right.

Senator CORMANN: Maybe just initially, what is the price assumption that you use in relation to permits for 2016-17 that you are selling in 2013-14?

Mr Brake: In the fixed price period, I think the budget papers—

Senator CORMANN: Not the fixed price period.

Mr Brake: Sorry, the auctions which are being sold in say, 2013-14, which—

Senator CORMANN: In relation to the floating price period?

Mr Brake: That is right. There is a box in the budget—

Senator CORMANN: Box 9?

Mr Brake: Box 9, that is right. It says that the price assumption for those permits is based on the EU ETS market futures prices for 2013-14 and 2014-15.

Senator CORMANN: Which will be what? Roughly around A\$6 a tonne?

Mr Brake: I do not have those figures on me.

Senator CORMANN: Do you want to provide those on notice, perhaps?

Senator Wong: We will take it on notice.

Senator CORMANN: Thank you. So that is in relation to during the fixed price period. What about when we get to 2015-16 and 2016-17, when you would be planning to advance sell

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carbon permits for 2018-19 and 2019-20? What is the basis for your revenue estimates from those carbon permits for the financial years 2015-16 and 2016-17?

Mr Brake: For auctions that take place in the floating price period, the price is assumed to be the carbon price in the year that the auction occurs. I will give you an example: permits auctioned in 2015-16 would be auctioned at the projected price, \$12.10, regardless of the vintage year.

Senator CORMANN: So in 2016-17, when you would be advance-auctioning permits for 2019-20, the floating price, according to your linear projections, is \$18.60. However, the price that is in the budget for 2019-20 is \$38 a tonne. So there is a \$20 gap between the revenue that you expect to generate on a cash basis in 2016-17 and the revenue on an accrual basis that is the 2019-20 projection. I see you nod, is that right?

Mr Brake: Yes, that is my understanding. On the cash side we are booking the price in that year rather than what the projected price is in two years time.

Senator CORMANN: How do you reconcile—

Mr Brake: Excuse me. I was talking there about the cash figures. In fiscal terms the permits are recognised at their expected market value at the time of the emission.

Senator CORMANN: What is the expected market value?

Mr Brake: For those particular years, I will take that on notice.

Senator CORMANN: Obviously I was asking a question in cash terms. So in 2016-17 you are expecting to sell one-eighth of permits for 2019-20 at \$18.60 a tonne when your projection for 2019-20 is \$38, out of the modelling. Is that right?

Mr Brake: That is correct.

Answer:

(a) Carbon prices for the forecast years 2013-14 and 2014-15 are based upon average EU-ETS market futures prices for those years. Advance auctions for emissions liabilities for 2015-16 and 2016-17 are based on the carbon price parameters in each of the forecast years in which they are auctioned.

At the 2013-14 Budget, the price parameters were \$12.10 in 2015-16 and \$18.60 in 2016-17. There is no information publicly available to respond to this question for other years.

(b) There is no information publicly available to respond to this question.