

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

19 – 20 October 2011

Question No: SBT 828

Topic: NSW GGas Scheme

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Senator Xenophon asked:

Senator XENOPHON: When the Productivity Commission did a review of carbon pricing mechanisms in other jurisdictions—I think the report was released in May of this year—did you look at New South Wales's GGas scheme, which was a baseline credit scheme; it was all carrot and no stick? Did you look at those sorts of schemes, which formed the basis of the Frontier Economics modelling for an intensity-based scheme, which some say, and I am among them, is a more efficient way to reduce carbon emissions? Was that within your brief or was that something that the commission did?

Mr Banks: We were looking at electricity and transport as the two key areas around the world, and we also looked at the most important policies and programs in Australia. In terms of the particular program you are mentioning, we would have included that.

Ms Gropp: We did look at that. For example, table 4.3 of the report on page 83 has the results of the subsidy equivalent of different schemes including the GGas scheme, the amount of abatement achieved and the implicit abatement subsidy from that scheme. My recollection is that there were some issues around the data.

Senator XENOPHON: I am happy for that to be taken on notice. That is not what I wanted to ask you about but I thought it was worthwhile, further to Senator Cormann's line of questioning.

Answer:

The Commission estimated the subsidy equivalent, abatement and implicit abatement subsidy for the New South Wales (and ACT) Greenhouse Gas Reduction Scheme (GGAS) in its 2011 report *Carbon Emission Policies in Key Economies* (table 4.3, p. 83). Details of the data, assumptions and calculations are presented in Appendix D of the report (available from the Commission's website www.pc.gov.au/projects/study/carbon-prices).

GGAS is a baseline and credit scheme whereby electricity retailers and some other organisations are required to surrender offset certificates if the CO₂ emissions associated with the electricity they supply exceeds their benchmark. As noted in Appendix D, around 23 million NSW Greenhouse Abatement Certificates (NGACs) were surrendered in 2009, of which around 15.5 million were attributed to electricity generation. The Commission's estimates of the scheme only relate to electricity generation.

The estimated subsidy equivalent of the scheme (\$2.7 million) was calculated by multiplying the numbers of NGACs issued (adjusted to capture only those certificates that reflected additional

abatement) by their average spot price (\$4.57 in 2010 dollars). Although 15.5 million certificates were issued, the Commission used DCCEE's assessment that only a fraction (fewer than 5%) of the certificates issued represented abatement additional to that which would have been achieved in the absence of the scheme. The abatement estimate of 0.6 million tonnes of CO₂ thus mirrors the estimated number of NGACs representing additional abatement, as each certificate represents one tonne of abatement. Dividing the subsidy equivalent by estimated total abatement achieved gives an implicit abatement subsidy of \$4.57 (that is, the spot price). The Commission's estimates therefore exclude the subsidies paid to generators for abatement that DCCEE assessed would likely have been undertaken anyway (for example, cost-saving, energy efficiency improvements).