

Senate Finance and Public Administration Legislation Committee
ANSWER TO QUESTION ON NOTICE
Prime Minister and Cabinet Portfolio
Department of Climate Change
Budget Estimates Hearing—May 2009

Written question reference: CC10a

Outcome/Output: Outcome 1, Output Group 1.1 – Response to climate change

Topic: Comparison of assistance provided to the electricity sector under the Carbon Pollution Reduction Scheme and the Waxman-Markey Bill

Hansard Page: F&PA 22

Question: (Senator Abetz)

Senator ABETZ—Could I ask a follow-up question on notice. Could you provide a similar comparison of the Waxman and the CPRS in relation to how it will deal with the electricity sector and electricity generators?

Mr Comley—Yes, we can do that.

Answer:

Allocations of permits to the electricity sector and electricity generators are provided for under the Carbon Pollution Reduction Scheme (CPRS) and the Waxman-Markey Bill (WMB) for quite different purposes.

Permits can be used interchangeably with measures funded directly from government revenue to achieve a range of policy outcomes. Policy in the context of the energy sector can include among other things:

- providing assistance to electricity generators to address the impact of the introduction of an emissions trading scheme on their asset values;
- providing assistance to energy consumers to address the effect of rising energy prices; or
- providing assistance to developers of new low-emissions energy technologies, including carbon capture and storage.

The proposed Australian and American approaches to addressing these issues involve a mixture of permit allocation and other measures directly funded from government revenue. The approaches reflect differences in priorities afforded to different objectives, the policy tools available under the respective political systems, as well as other factors such as differences in the structure of the electricity sector and consumers in Australia and the United States.

Assistance to electricity generators

Carbon Pollution Reduction Scheme

Under the CPRS, the Electricity Sector Adjustment Scheme (ESAS) will provide up to 130.7 million free permits worth around \$3.8 billion over five years to the most emissions-intensive coal-fired electricity generators. The 130.7 million free permits allocated to coal-fired electricity generators under the ESAS represents an allocation of around six per cent of total permits in the first five years of the CPRS.

This assistance is provided to ameliorate the risk of adversely affecting the investment environment in Australia's electricity generation sector. Assistance is directed at the most emissions-intensive coal-fired generators as these generators are considered most likely to experience the largest losses in asset values.

Waxman-Markey Bill

The WMB provides approximately five per cent free permits to specified 'merchant coal' generators and generators that are party to long-term power purchase agreements that do not allow them to pass through permit costs. Permit allocations are to be phased out between 2026 and 2030¹.

Assistance to energy consumers

Carbon Pollution Reduction Scheme

In addition to assistance under ESAS the Government has committed to taxation and budgetary measures worth around \$5 billion in 2012-13 (approximately 40 per cent of potential permit revenue) to assist households adjust to the introduction of the CPRS, such as higher energy prices.

Waxman-Markey Bill

The WMB proposes that 15 per cent of emissions allocations be auctioned, with the proceeds being used primarily to help low-income households adjust to energy price increases².

In addition, around 32 per cent of permits are to be allocated to electricity retailers through to 2025. These permits must be used to benefit their customers (including both households and businesses), for example by selling permits and using the proceeds to give customers a rebate on their electricity bills³.

The WMB also requires around 10.5 per cent of permits during the period 2016 to 2025 to be used to assist natural gas users and users of home heating oil (via natural gas distribution companies and state governments).

¹ http://energycommerce.house.gov/Press_111/20090515/allowanceallocation.pdf

² http://energycommerce.house.gov/Press_111/20090623/hr2454_rulessummary.pdf

³ http://energycommerce.house.gov/Press_111/20090623/hr2454_rulessummary.pdf

Assistance to low-emissions technologies, such as carbon capture and storage

Australian Government

The Government has committed to significant funding to support the development of commercial scale low emissions energy technologies, including carbon capture and storage (CCS). This includes \$4.5 billion for the Clean Energy Initiative, of which \$2 billion over nine years, from 2009-10 will accelerate the deployment of industrial scale CCS projects in Australia through the CCS Flagships Program. Funding of \$1.6 billion will also go to assisting solar technologies, including new funding of almost \$1.4 billion for the Solar Flagships program to develop up to four individual solar generation plants, providing an additional 1,000MW in generation capacity to the national grid.

Waxman-Markey Bill

The WMB provides assistance through the mechanism of permit allocation rather than via the budget. Under the WMB, two per cent of allowances from 2014 through 2017 and five per cent of allowances in 2018 and subsequent years are provided to help electric utilities cover the costs of installing and operating carbon capture and sequestration technologies⁴. The WMB also foreshadows the imposition of a “wires charge” on fossil fuel generated electricity to provide a further \$10 billion to assist the development of CCS.

⁴ http://energycommerce.house.gov/Press_111/20090623/hr2454_rulessummary.pdf