

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: CC10b

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 (CPRS) Waxman-Markey Bill (WMB) and the EU emissions trading scheme.

Hansard Page: F&PA 22

Question: (Senator Fielding)

Senator FIELDING—You mentioned before that you were coming back to the committee about comparisons with the proposed bill from the US. What about comparison with the European model? I ask so you can come back at the same time rather than coming back with pieces—

Mr Sterland—Particularly on the generators?

Senator FIELDING—Yes.

Mr Sterland—We would be happy to do that.

Answer:

Allocations of permits to the electricity sector and electricity generators are provided for under the Carbon Pollution Reduction Scheme (CPRS), the Waxman-Markey Bill (WMB) and the European Union emissions trading scheme (EU ETS) 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, European 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, Europe 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.

European Union Emissions Trading Scheme (Phase III)

Under the EU ETS, allocations are moving progressively towards full auctioning. For the electricity generation sector, over 95 per cent of permits needed by the sector were freely allocated in Phase I (2005-07) and over 90 per cent of permits will be freely allocated over Phase II (2008-2012). This approach has been widely criticised for providing 'windfall profits' to generators. This windfall arose because the generators were able to pass on to consumers (through higher electricity prices) the carbon cost arising with the introduction of the EU ETS while pocketing the free permits, the value of which had been intended to offset the carbon price.

Under Phase III of the EU ETS (2013-20), the general approach will be that no free permits will be provided to the electricity generation sector.

However, some EU member states will have the option to allocate permits up to a maximum amount of 70 per cent of the 2005-07 emissions of eligible electricity generators in 2013, declining to zero in 2020. This is limited to member states fulfilling certain conditions relating to their interconnectivity or their share of fossil fuels in production and low GDP per capita in relation to the EU-27 average. This appears to apply only to some Eastern European states.

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.

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

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).

European Union Emissions Trading Scheme (Phase III)

The EU ETS does not make specific provisions to assist energy consumers, although this does not limit the ability of member states to implement measures to this end.

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.

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.

European Union Emissions Trading Scheme (Phase III)

Up to 300 million allowances are available up until 31 December 2015 to help stimulate the construction and operation of up to 12 commercial scale CCS demonstration projects, as well as demonstration projects of innovative renewable energy technologies.

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

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

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