

*South Australian Government Submission
to the Senate Select Committee
on Climate Policy*

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**Government
of South Australia**

1. Introduction

The South Australian Government is a long standing supporter of an emissions trading system for Australia. Experience in Europe suggests that such systems can be implemented effectively and efficiently. The Government believes Australia's system can operate at least as effectively.

The linchpin of Australia's response to climate change must be a cap on emissions and associated carbon prices. South Australia considers that the roles this implies for the Commonwealth and State Governments in mitigation, energy efficiency and adaptation are appropriate and that further delineation of these roles will occur between now and the introduction of the Carbon Pollution Reduction Scheme (CPRS) next year.

South Australia considers also that the specific design of the CPRS is fundamentally sound and will stand up well against other schemes.

The South Australian Government considers that there remains some scope for improvement in the scheme design. The principal opportunity is to include a greater capacity to adequately recognise and take into account some voluntary actions by households to reduce greenhouse gas emissions. These include voluntary actions taken by households to reduce greenhouse gas emissions that are to the financial detriment of the individual or household and that are sufficiently measurable and verifiable. Such actions should be taken into account when setting caps and trajectories. At present, such actions are the purchase of GreenPower and the installation of solar panels.

There are international precedents for the recognition of voluntary action in emissions trading schemes, particularly in the Regional Greenhouse Gas Initiative in the United States and to a lesser extent in the European Union Emissions Trading Scheme by the United Kingdom.

2. Climate Policy Overview

The South Australian Government supports the implementation of a well-designed and transparent emissions trading scheme and recognises that such a scheme will achieve greenhouse gas emissions abatement at lowest cost.

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The South Australian Government has contributed significantly to the design of Australia's emissions trading scheme – the CPRS – through the National Emissions Trading Taskforce (NETT), commissioning with the other States and Territories the Garnaut Climate Change Review, providing a detailed submission to the Green Paper on the CPRS and providing input into the design of the compensation package for emissions intensive trade exposed industries and the electricity generation sector. The design and introduction of the CPRS should ensure the reliability and security of energy supply in the transition to a low emissions economy.

Both the NETT and the Garnaut Review also supported an emissions trading scheme as the central measure for cutting greenhouse gas emissions in Australia by placing a price on carbon.

The NETT submission to the Garnaut Review stated that “emissions trading will be the central pillar in Australia's strategy to reduce greenhouse gas emissions.” However, due to the size and complexity of the problem, “other policy measures will be required to complement the emissions trading scheme.”

3. Voluntary Action

Within the context of the South Australian Government's strong support for the CPRS, it is considered that the design could be improved by providing for the recognition of some forms of abatement action undertaken on a voluntary basis by households and individuals.

Under the present design, costs incurred by individuals in pursuing their own actions are distributed as savings to industry and the rest of the community and not as additional abatement.

If households pursue emissions reduction strategies such as the purchase of renewable energy, installation of solar panels and energy efficiency measures, they will not be contributing to any greenhouse emissions reduction under the CPRS. This is because the number of permits to be issued is fixed each year (i.e., Australia will have a fixed number which represents a minimum and maximum level of pollution). For example, a household purchasing GreenPower or investing in solar panels is effectively freeing up

emissions for someone else. This action achieves no more than affecting an economic transfer from the household to the generator. Yet, it is plainly in Australia's interest to capture the abatement that households donate to the national effort at their own expense. In contrast, the purchase of permits by individuals and households, and the subsequent extinguishing of these permits, creates additional abatement as well as higher costs for the rest of the community.

The South Australian Government suggests that this outcome should be addressed for several reasons. First, failure to include voluntary action in the CPRS means that the Scheme will not capture a particularly cheap form of abatement. By definition, the costs to the community of this form of abatement is nil as the household has elected to meet the entire cost itself without penalty to the broader community.

Second, recognition of voluntary action directly supports investment in clean energy, energy efficiency, and jobs. The voluntary surrender of permits may have the same outcome but its indirect impact is more likely to result in leakage of investment and jobs offshore.

Third, the exclusion of voluntary action means that the commitments of State Governments and corporations to voluntary action are no longer encouraged and made subsidiary to voluntary surrender of permits.

That is not to say that there is no incentive left to take voluntary action. Clearly, an effective investment in energy efficiency will return savings to the household and these savings will grow over time as the carbon price increases.

However, there are actions being taken by households that are to their economic detriment. Unlike energy efficiency measures, these voluntary actions provide no direct return to the household, yet they contribute to Australia's emissions performance. These types of actions deserve to be recognised.

As such, the South Australian Government believes that this is a key area in which the design of the CPRS can be improved: by enabling those voluntary actions taken by households to reduce greenhouse gas emissions that are to the financial detriment of the household and that are measurable and verifiable. These actions, which are principally the purchase of GreenPower and the installation of solar panels, could be taken account of when setting caps and trajectories.

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The criteria of financial detriment is important, as an action that becomes “cost-effective” (e.g., when GreenPower prices reach parity with standard grid electricity) should no longer be viewed as “voluntary action.”

Household action to improve energy efficiency could also be considered, although there are measurement issues regarding the energy savings and emissions reductions from such actions that would need to be addressed.

An associated issue is how such action might be taken into account. Various proposals have been put forward, including a proposal from the Voluntary Carbon Markets Association that was in their submission. The South Australian Government considers it a matter for the Commonwealth Government to determine which of the available options best achieves the outcome proposed in this submission.

As a starting point, the South Australian Government believes that taking voluntary action into account in target setting should be made obligatory rather than discretionary. To that end, it is proposed that Clauses 14 and 15 of the draft CPRS legislation be amended. At present the clauses provide that in determining the approach in setting the national scheme cap, the Minister **may** have regard to matters including “voluntary action which is expected to be taken to reduce Australia’s greenhouse gas emissions.”

It is proposed that these sections of the draft CPRS legislation be amended to ensure that the Minister **will** have regard to matters including “voluntary action which is expected to be taken to reduce Australia’s greenhouse gas emissions”.

It needs to be recognised that no solution is perfect and the recognition of voluntary action in setting the CPRS caps and trajectories need constant review, including the types of voluntary action to be recognised.

It is important to note that there are international precedents for the recognition of voluntary action in emissions trading schemes, particularly the Regional Greenhouse Gas Initiative (RGGI) in the United States and to a lesser extent in the United Kingdom.

The RGGI is a cap and trade emissions trading scheme that applies to carbon dioxide emissions (CO₂) from electricity generators in ten Northeast and Mid-Atlantic States. These are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island and Vermont. Electricity sector emissions account for around 25 per cent of the emissions in these ten states.

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Under the RGGI, a cap is fixed to 2014 and is then cut by 2.5 per cent a year to 2018, so that emissions by 2018 are 10 per cent below 2008 levels. Permits are auctioned quarterly and the revenue used to invest in energy efficiency and renewable energy. In addition to buying and trading in permits, electricity generators can use prescribed offsets to reduce emissions, including landfill methane capture and afforestation.

RGGI also takes into account voluntary action by households and businesses. Purchases of 'green power' reduce the cap, with all but one State (Delaware) retiring permits commensurate with the amount of green power purchased. The process is as follows:

- States set aside a number of permits for green power purchases at the beginning of each year. This is usually 1-2 per cent of permits.
- States auction remaining permits.
- At the end of the year, purchasers and sellers of renewable energy report annual activity.
- States retire allowances equal to the amount of green power purchased.

The United Kingdom takes voluntary action into account when setting the cap both for the European Union Emissions Trading Scheme (EU ETS) and in the Carbon Reduction Commitment (this covers the 50 per cent of the UK emissions not covered under the EU ETS).

The UK evaluates government climate change policies that are designed to deliver emissions savings. Assumptions made on what greenhouse gas emissions will be saved by these policies are then incorporated into the cap.

The households sector was calculated as having significant savings, equivalent to around 17 per cent of the total, and many of these savings were estimated as also being cost effective. Under the UK's Climate Change Act 2008, carbon budgets cap emissions over five-year periods. Once the cap has been set, the UK government reviews the emissions savings are made across the sectors through existing climate change policies, then uses the savings to wind down the cap.

In essence, the message to households and individuals is that if they continue to implement voluntary action it will be measured and incorporated into the next cap – a direct link to emissions reduction at a national level.

In the UK the purchase of GreenPower and how it can be accounted for under the cap is yet to be determined.

4. Summary

The South Australian Government is strongly supportive of an emissions trading scheme for Australia and feels that the specific design of the CPRS is fundamentally sound. However, the South Australian Government believes that it is important to include voluntary action in the CPRS and that taking voluntary action into account in target setting should be made obligatory rather than discretionary. Specifically, it is proposed that Clauses 14 and 15 of the draft CPRS legislation be amended to require that voluntary action be factored into setting the national emissions cap and trajectory. Although there is international precedent for including voluntary action in emissions caps, no solution is perfect. The South Australian Government recognises that both the inclusion of voluntary action in setting the CPRS caps and trajectories, and the types of actions that are included, will need ongoing review.