

Inquiry into the Renewable Energy (Electricity) Amendment Bill 2009

A submission of Catholic Health Australia to the Senate Economics Committee

15 July 2009

CHA supports action on climate change, and invites government incentives to expand environmental sustainability programs in hospitals and aged care services

Summary of our position in response to the Renewable Energy Target scheme:

- Catholic Health Australia represents the largest non-government grouping of not-for-profit health and aged care services in Australia which operate 9,500 hospital beds and 19,000 aged care beds;
- Our experience and expertise is in health and aged care, and we are not qualified as either environmental scientists or economists to critically assess the merits of the proposed renewable energy targets;
- CHA does support the Government's intention to set and pursue renewable energy targets in response to the evidence of a changing climate;
- There will be adverse impacts on not-for-profit health and aged care service providers as a result of the implementation of the *Renewable Energy (Electricity) Amendment Bill 2009* to the extent that the *Bill* will see an increase in energy costs for health and aged care services. We estimate this adverse impact on Catholic Hospitals in 2010 to be \$650,000, leading to \$1,685,000 in 2020. The adverse impact for Catholic aged care services will be \$365,841 in 2010, growing to \$1,035,261 in 2020. Accordingly, the **total cost of the *Bill* for Catholic health and aged care providers is likely to total \$1,022,436 in 2010, raising to \$2,720,591 in 2020;**
- Existing Commonwealth programs, specifically payments made under the Intergovernmental Agreements and National Partnerships (formerly known as the Australian Health Care Agreements) in relation to hospitals and the *Aged Care Act 1997* in relation to aged care, will need to be adjusted to meet the expected increase in the cost of energy that will arise as a result of the *Bill* becoming an *Act*. Similarly, private health insurance rebates paid to private hospital providers will require adjustment to meet the impacts of the *Bill*. Adjustments need only be transitional to enable not-for-profit services to meet the initial costs of the Renewable Energy Target Scheme, and be phased out over time in order to provide an incentive to achieve electricity use reductions;
- The adverse impacts as a result of the *Bill* come in addition to that of cost impacts of the proposed Carbon Pollution Reduction Scheme. Catholic Hospitals are likely to meet an increase in energy costs of \$10.8 million in year one of a fully operational carbon trading scheme, for which the Government is yet to propose any adjustment packages to meet the needs of not-for-profit health and aged care providers;
- New Commonwealth programs should be established to provide specific assistance to health and aged care services to implement sustainability

initiatives within not-for-profit health and aged services to help them reduce energy usage, and to install items to enable the production of renewable energy;

- CHA has asked the Commonwealth Government to give consideration to adjusting the various Commonwealth programs that fund hospital and aged care services to meet the costs of the proposed Carbon Pollution Reduction Scheme and the Renewable Energy Target Scheme (see Appendix 1);
- More broadly, all not-for-profit bodies should be supported in their efforts to meet the energy cost increases that will arise as a result of the Carbon Pollution Reduction Scheme and the Renewable Energy Target Scheme. The Commonwealth should also establish a series of capital grant and incentive programs to enable more not-for-profit bodies to make improvements in the environmental sustainability of their business practices.

CHA would welcome the opportunity to provide evidence to the Inquiry in relation to the cost impact of the *Bill* on not-for-profit hospital and aged care services and options to remedy this adverse impact. CHA also extends to the Inquiry an opportunity to visit or conduct public hearings of the Inquiry in a Catholic hospital or aged care service where environmental sustainability programs are already in place.

About CHA

Catholic Health Australia (CHA) is a national peak membership organisation representing Catholic health and aged care providers.

Catholic providers comprise the largest non-government grouping of health and aged care services in Australia. Within the CHA membership there are service providers who manage:

- 9,500 beds across 21 public and 54 private health care facilities;
- 550 aged care services comprising 19,000 residential aged care beds, 6,000 retirement units, and 14,000 aged care or community care packages.

These services represent more than 13% of health and aged care services in Australia, and are operated by different bodies of the Catholic Church.

We support action on renewable energy

CHA supports the broad intent of the *Bill* to introduce a renewable energy scheme which will help limit carbon emissions in Australia. CHA has no particular expertise to be able to comment on the merit of the detail of the proposed scheme, so we are unqualified to make any further comment on the scheme as currently proposed.

CHA has also previously lent its support to the establishment of a Carbon Pollution Reduction Scheme.

In fact, CHA is supportive of the Government's recognition of the need to act on climate change, believing that action is required to improve the stewardship of the earth's resources and climate.

The renewable energy scheme will adversely impact health and aged care services

The report of McLennan, Magasanik Associates commissioned by the Department of Climate Change is perhaps the most detailed assessment currently available to consider the favourable and adverse impacts of the *Bill* on the Australian Economy.

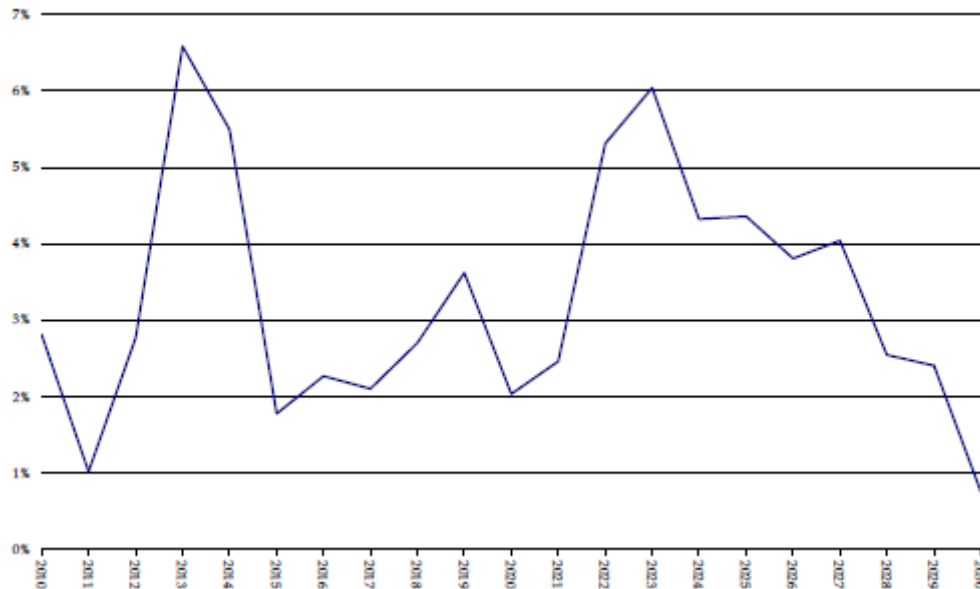
The report says at page 39 and 41 that:

"The expanded Renewable Energy Target Scheme has a modest impact on wholesale electricity prices...Retail prices, however, are expected to increase by around 3% in the period to 2020 and 3.7% in the period from 2021 to 2030. The increase is due to the added cost of purchasing certificates."

The same report indicates that when the impacts of the Carbon Pollution Reduction Scheme and the Renewable Energy Target Schemes are combined, there will be an

even higher increase in the retail price of electricity. The following table taken from page 41 of the report outlines the combined average electricity retail price increases:

Table: Proposed change in electricity retail price (CPRS+RET) from McLennan, Magasanik Associates (Figure 3-11, page 41)



Catholic hospitals and aged care services derive their operational revenues from four primary sources:

1. The Commonwealth and the State and Territory Governments fund the operation of the 21 Catholic Public Hospitals by way of the **Intergovernmental Agreements and National Partnerships** (formerly known as the Australian Health Care Agreements);
2. **Private Health Insurance Funds**(including the Department of Veteran Affairs) provide benefits for the treatment of privately insured patients and veterans in the 54 Catholic Private Hospitals;
3. **Consumers** contribute to the cost of some of their healthcare in circumstances where they obtain treatment in a private hospital either without private health insurance coverage or where they have private health insurance coverage that might require the payment of an excess charge. Subject to means testing, some consumers also contribute to some of the costs of their aged care;
4. The cost of providing residential aged care services is met by a combination of Commonwealth Government subsidies paid to providers in respect of individual residents (which represents about 70% of costs), and means tested fees paid by residents (which represents about 30% of costs) as determined under the **Aged Care Act 1997**.

The hospital and aged care services operated by the Catholic Church have a limited capacity to absorb new costs. If the costs associated with the implementation of the Carbon Pollution Reduction Scheme and the Renewable Energy Target Scheme were imposed on Catholic hospitals and aged care services in year one, the only way in which these costs could be absorbed would be through cuts to existing health or aged care services.

To the extent that the *Bill* will result in new costs, CHA seeks an adjustment in the operational revenues derived from government to meet the electricity cost increases that will result from the renewable energy target scheme. In the case of private hospital funding from private health insurers, premium increases will need to be approved by the Minister for Health and Ageing that will allow for reimbursement for these cost increases and to enable investment in more efficient plant and capital to minimise the requirement for future reimbursements.

Adjustments in funding to health and aged care services need only be transitional. Ideally, existing government funding programs would make provision for not-for-profit services to meet the initial costs of the Renewable Energy Target Scheme. This funding adjustment should be phased out over time in order to provide an incentive for hospital and aged care services to achieve electricity use reductions or face an eventual increase in electricity costs when the transitional funding ends.

The *Bill* will cost CHA Hospitals \$650,000 in 2010, & \$1,685,000 in 2020

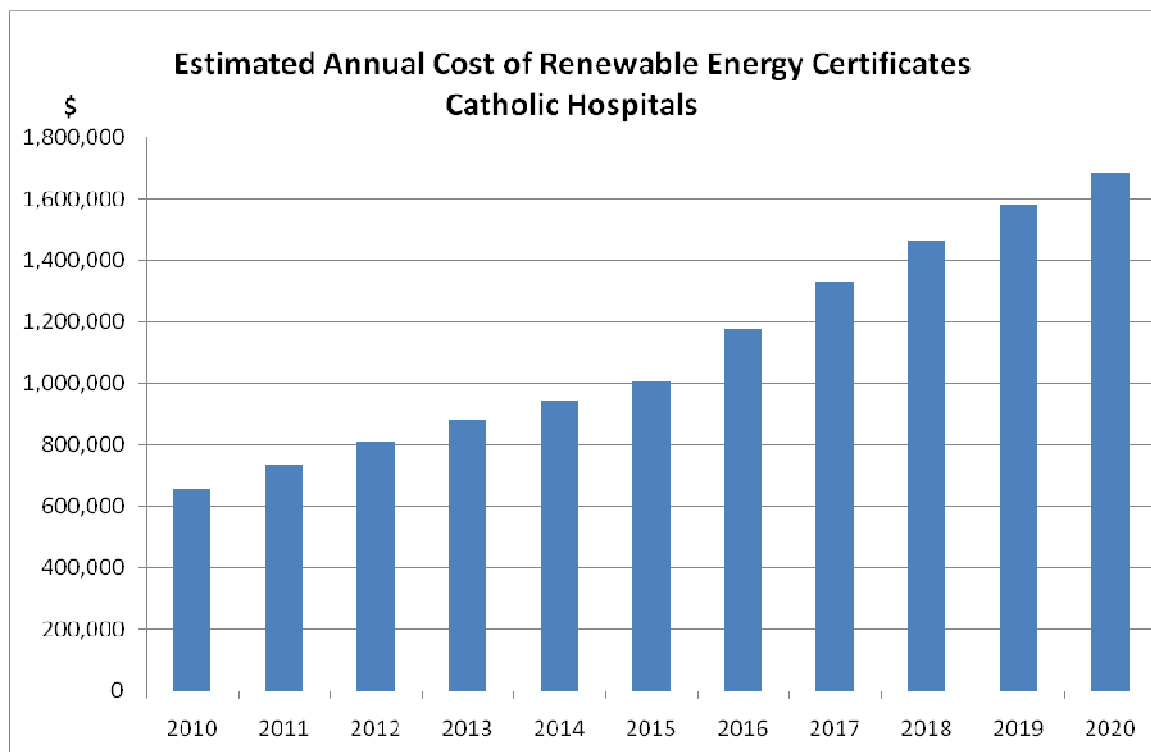
CHA has been able to conduct an assessment of the likely cost increases in retail electricity purchases to be incurred as a result of the requirement for electricity retailers to purchase Renewable Energy Certificates and in turn pass that cost on to the consumer.

A number of assumptions have been made to calculate the cost impact on the 75 Catholic hospitals. In relation to Catholic Hospitals, it is assumed that:

- The average hospital bed consumes 23.994 MWh of electricity per annum. This average estimate has been derived by way of review of current electricity usage across a select group of CHA member hospitals. This usage does not include overheads such as corporate administration and ancillary services. When administration and ancillary services are also included, the average power use per hospital bed falls to 21.537 MWh per annum. For the purposes of the calculations presented below, CHA has taken a conservative approach and used the lower of these two amounts;
- Catholic hospitals in 2010 will operate 9,500 beds, and this amount is assumed to remain constant for the purpose of this forecast;
- Energy consumption per bed will increase at a rate of 2% per annum as technology use in healthcare increases;

- The assumed purchase price of renewable energy certificates is that forecast by McLennan, Magasanik Associates in its report on page 38, which starts at a cost of almost \$70 per certificate in 2009 declining to \$18 in 2030.

With each of these assumptions taken into consideration, it is forecast in the table below that the cost to Catholic Hospital operators of the Renewable Energy Target Scheme in 2010 will be \$656,595. That will grow to \$1,685,330 in 2020.



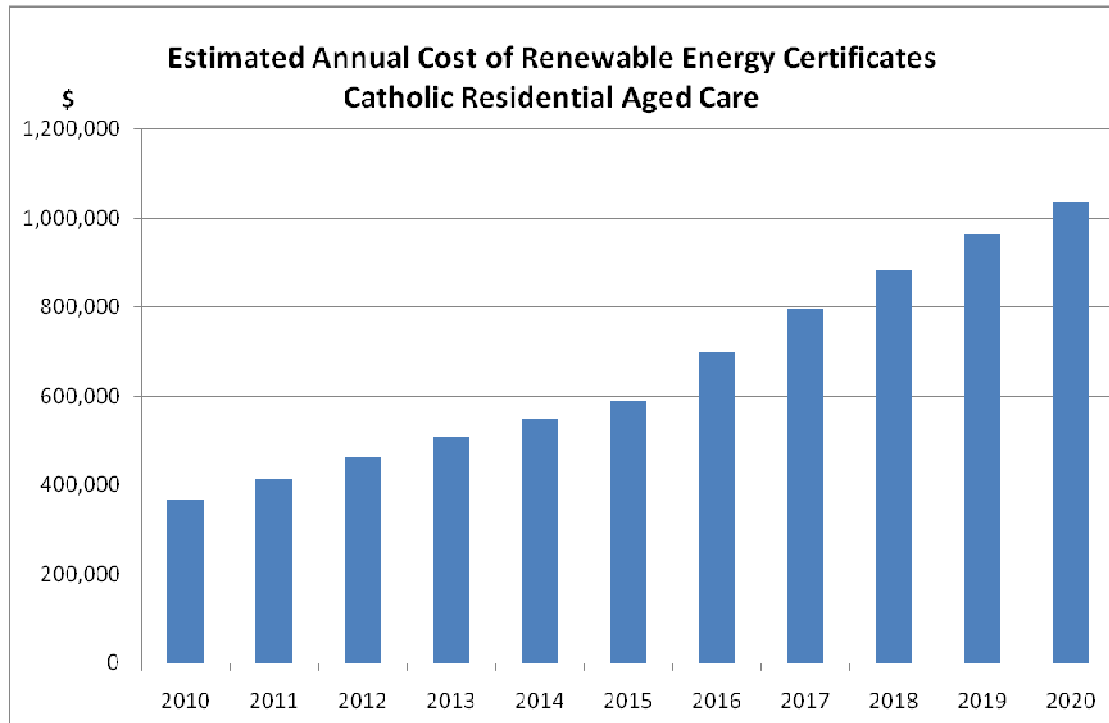
The cost of the Renewable Energy Target Scheme to Catholic hospitals does not include the cost of the Carbon Pollution Scheme, estimated to be as much as \$10.8 million in year one of full operation.

The *Bill* will cost CHA Aged Care Services \$365,000 in 2010, & \$1,035,261 in 2020

A number of assumptions have been made to calculate the cost impact on the 550 Catholic aged care services. In relation to Catholic aged care services, it is assumed:

- The average aged care bed consumes 6MWh of electricity per annum;
- Catholic aged care providers will in 2010 operate 19,000 beds, and that this is forecast to grow by 3% per annum in line with average growth in services within the aged care sector
- The assumed purchase price of renewable energy certificates is that forecast by McLennan, Magasanik Associates in its report on page 38, which starts at a cost of almost \$70 per certificate in 2009 declining to \$18 in 2030.

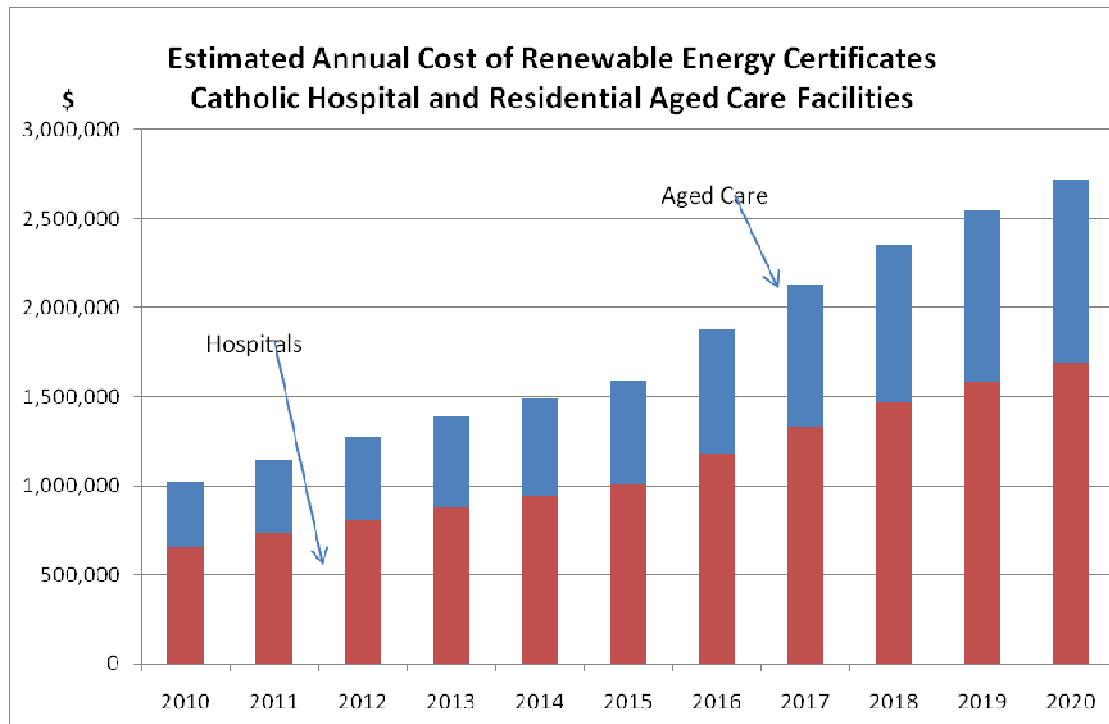
With each of these assumptions taken into consideration, it is forecast in the table below that the cost to Catholic aged care operators of the Renewable Energy Target Scheme in 2010 will be \$365,841. That will grow to \$1,035,261 in 2020.



The cost of the Renewable Energy Target Scheme to Catholic aged care services does not include the cost of the Carbon Pollution Scheme.

The total cost of the *Bill* on Catholic hospital and aged care services

On the basis of the assumptions explained above, CHA forecasts that the total cost of the *Bill* to the Catholic health and aged care services in 2010 will be \$1,022,436, raising to \$2,720,591 in 2020. This is detailed in the table below.



Action is underway, and government assistance could help achieve more

The Catholic hospital and aged care sector has commenced work to improve the sustainability of its hospital and aged care network. Whilst current capital financing for sustainability initiatives is limited, a series of projects are underway to reduce carbon emissions, improve water management, and cut waste product being sent to landfill.

By way of illustration of environmental sustainability initiatives already under way:

- Southern Cross Care Tasmania has included within recent redevelopments of its aged care homes the installation of geothermal energy systems. The systems use earth and ground water temperature to heat and cool aged care homes. Having first embraced the technology in the mid 1990s, Southern Cross Care Tasmania now use geothermal energy in three separate locations. At one location in Sandown, the system uses a closed loop process that draws heat from the city’s treated sewage system – an Australian first. At a different site in Newtown, the average energy cost has been reduced from \$250,000 per annum to \$60,000.
- St John of God Health Care operates hospitals in West Australia, Victoria, New South Wales, and New Zealand. The hospital group is currently undertaking capital projects to:
 - Upgrade chillers at the St John of God Hospital in Murdoch in south Perth, which will save 500,000 kilowatts of electricity per annum;

- Install energy efficient lighting and sensor lights across its hospital network to save 160,700 kilowatts of electricity per annum;
- Replace the St John of God Pathology care fleet with hybrid vehicles in order to reduce annual carbon emissions by 8 tonnes.

These illustrations are indicative of the commitment of Catholic health and aged care service providers to improving their environmental sustainability. The capacity to implement further sustainability projects is limited by the availability of funds.

The not-for-profit health care sector operates services all-day-every-day throughout the year and as such is an energy intensive sector. Not-for-profit bodies have minimal financial capacity to offset increases in energy costs. In order for not-for-profit health and aged care providers to maintain the high level of service they currently provide, the Commonwealth should consider the establishment an all encompassing program of energy and water management measures. These should take the form of capital funds and capacity building programs that assist not-for-profit organisations to manage their energy and water use, share expertise and develop innovation to manage energy and carbon. These measures will assist the Commonwealth in their goal of achieving the objectives of both the Carbon Pollution Reduction Scheme and Renewable Energy Target Scheme to help reduce greenhouse gas emissions.

Recommendations to the Inquiry

CHA supports the intention of the *Bill* to promote the uptake of renewable energy.

CHA offers this support on the condition that existing not-for-profit hospital and aged care services are not disadvantaged by having to absorb the costs of the Renewable Energy Scheme. We submit this can be avoided by putting in place a transitional funding program to meet the initial increase in electricity costs that will be incurred during the early years of the scheme, and that this transitional period be used to enable not-for-profit hospital and aged care services to implement electricity saving initiatives.

CHA proposes that a capital grants program be established to enable not-for-profit hospitals and aged care services to make sustainability improvements in the operation of services and also to be able install renewable energy devices in order to play a role in the generating of renewable energy.

CHA invites the Senate Economics Committee to visit a Catholic hospital or aged care facility where environmental sustainability initiatives have already been implemented, and proposes that the Committee consider holding one of its public hearings in such a facility.

CHA would welcome the opportunity to give evidence to the Inquiry in relation to the cost impact of the *Bill* on not-for-profit hospital and aged care services and options to remedy this adverse impact.

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Appendix 1 – Letter to Minister for Climate Change

15 July 2009

Senator the Hon Penny Wong
Minister for Climate Change and Water
The Senate
Parliament House
Canberra ACT 2600

Dear Minister

Carbon Pollution Reduction Scheme and the Renewable Energy Target Scheme

Catholic Health Australia (CHA) is the member body that represents 75 not-for-profit hospitals and 550 not-for-profit aged care services. On any one day, our members provide care for about one of every ten people in a hospital or aged care home.

CHA supports the need to reduce carbon pollution. CHA supports the need to increase the production of energy derived from renewable sources. As such, we offer conditional support for the Government's Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target Scheme (RETS).

The implementation of these two schemes will have an adverse financial impact on CHA member hospitals and aged care services. We estimate the CPRS will cost our member hospitals \$10.8 million in year one. We further estimate the RETS will cost our member hospitals \$650,000 in year one. These estimates do not include the impact on our aged care services.

We seek to canvass adjustment of the Commonwealth programs that fund public hospitals and aged care services to meet the cost of implementing the CPRS and RETS. We also seek confirmation that future Private Health Insurance Premium approvals will include consideration of the cost of the CPRS and RETS. We would also welcome an opportunity to discuss with you the creation of a capital grants program to incentivise environmental sustainability projects in not-for-profit hospitals and aged care services.

I would welcome an opportunity to discuss these matters with you or your Government colleagues, and to show you the environmental initiatives that are in place in some of our member hospital and aged care facilities. I would be pleased to meet with you at one of these facilities, and will look forward to hearing from you with a view to arranging a future visit.

Yours sincerely



Martin Laverty
Chief Executive Officer



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