



Submission to Garnaut Climate Change Review

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The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) seeks to promote a just and democratic society by making strategic interventions on public interest issues.

PIAC is an independent, non-profit law and policy organisation that identifies public interest issues and works co-operatively with other organisations to advocate for individuals and groups affected.

In making strategic interventions on public interest issues PIAC seeks to:

- expose unjust or unsafe practices, deficient laws or policies;
- promote accountable, transparent and responsive government;
- encourage, influence and inform public debate;
- promote the development of law—both statutory and common—that reflects the public interest; and
- develop community organisations to pursue the interests of the communities they represent.

PIAC's response to the Garnaut Review arises principally from its Energy + Water Consumers' Advocacy Program (EWCAP). This Program was established at PIAC as the Utilities Consumers' Advocacy Program (UCAP) in 1998 with NSW Government funding. The aim of the Program is to develop public policy positions and advocate in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to this work from a community-based Reference Group.

Introduction

PIAC is pleased to respond to the Garnaut Climate Change Review's *Interim Report to the Commonwealth, State and Territory Governments of Australia* (Interim Report), and makes the following general comments before discussing the issue of compensating low-income households for higher energy prices following the introduction in 2010 of a national emissions trading scheme (NETS).

In view of the growing seriousness of the problem of climate change, PIAC agrees that 'Australia should make firm commitments in 2008, to 2020 and 2050 emissions targets that embody similar adjustment cost to that accepted by other developed countries.¹ As acknowledged in the Interim Report, Australia would need to go considerably further than the current target of a 60 per cent reduction by 2050 'to reduce risks of dangerous climate change to acceptable levels.²

PIAC supports the introduction of a 'cap and trade' scheme for reducing emissions as the option most likely to meet targets set for emissions reduction, and agrees that it should cover as many sectors of the economy that produce emissions as possible. PIAC therefore does not support the granting of free permits to coal-fired electricity generators, since structural reform is urgently needed in this industry in response to the necessity of a

¹ Garnaut Climate Change Review, *Interim Report to the Commonwealth, State and Territory Governments of Australia* (2008) 2.

² Ibid 3. While these thresholds are generally accepted as being a warming of 2°C above pre-industrial levels and an atmospheric CO₂-e concentration of 450 ppm, PIAC acknowledges the joint submission by WWF, the Climate Institute and the Australian Conservation which recommends that the Garnaut Review model a scheme that would help to limit the latter to 400 ppm to avoid exceeding the 2°C threshold.

carbon-constrained future.³ Nor should the Federal Government support any efforts by the NSW Government to give indemnities against future carbon liabilities to potential buyers of State-owned generators.

However, the introduction of an emissions trading scheme will inevitably lead to significantly higher retail electricity prices, especially in the early years when the energy sector is still largely dependent on coal-fired generation.⁴ As the Interim Report acknowledges, '[t]hese price rises will disproportionately affect low income households, for whom the affected products make up a larger portion of expenditure and who are less able to afford investment in products with lower energy (and emissions) profiles.'⁵

The remainder of this submission concentrates on how low-income households might be compensated for higher electricity prices.⁶

Low-income households and a carbon price

The Interim Report argues for returning 'the revenue from the rent value of the permits ... to households, in an economically and environmentally efficient way', along with 'structural adjustment assistance to workers, communities and firms whose established incomes, employment and patterns of life are disrupted by reforms' and support for 'research, development and commercialisation activities related to carbon capture and storage'.⁷

PIAC regards all of these ideas as worthwhile, but regards it as critical that the protection of low-income consumers should be given the highest priority in the allocation of revenue from the sale of permits, for several reasons:

1. Energy prices have a low price elasticity of demand, and low-income households have little discretionary energy usage, so any reduction in consumption in response to higher prices may affect their basic standard of living and wellbeing, eg, as they either attempt to do without heating in winter and cooling in summer, make sacrifices in other areas such as food and transport, or go into debt to pay higher energy bills.⁸
2. The early experience of the European Union emissions trading scheme included windfall profits for energy companies but substantially higher bills for consumers, with increasing evidence of energy poverty among low-income households.⁹

³ See Garnaut Climate Change Review, *Emissions Trading Scheme Discussion Paper* (2008) 54.

⁴ With generation costs constituting about 40 per cent of retail prices and an average pool price in the National Electricity Market (NEM) of around \$50 per MWh to date in 2007-08 (see <http://www.nemmco.com.au/data/avg_price/averageprice_main.shtml>), a carbon price of \$10 per tonne (the low range of expectations) would increase retail prices for residential consumers by around 1.2 cents per KWh, or approximately 8 per cent.

⁵ Garnaut Climate Change Review, above n1, 3.

⁶ PIAC's position is broadly in line with that articulated in a 2007 joint statement from Australian Conservation Foundation, CHOICE and the Australian Council of Social Services: see their call for action and protection on greenhouse emissions, media release, 5 May 2007: <<http://www.acoss.org.au/News.aspx?displayID=99&articleID=2610>>

⁷ Garnaut Climate Change Review, above n1, 48-51.

⁸ Around Australia, the prices of energy and water for residential consumers are already rising rapidly as a result of market reforms, the impact of drought, the need to pay for new infrastructure such as desalination plants, etc.

⁹ See, for example, Gaby Hinsliff, Power firms forced to help the poor, *The Guardian*, 30 March 2008: <<http://www.guardian.co.uk/money/2008/mar/30/householdbills.greopolitics>> accessed 10 April 2008.

3. There are alternative policy instruments available to achieve the other objectives described above: for instance, the use of the National Renewable Energy Target to encourage more investment in new renewable energy development and infrastructure.

The Interim Report suggests that '[p]olicy instruments for returning rents collected from households could include adjustments to the social security and income tax systems, and assistance through information or capital subsidies to support efficient household adjustment to higher energy prices.'¹⁰ In principle, PIAC believes that the best 'win-win' solution for low-income consumers and the environment is to encourage greater residential energy efficiency wherever possible. The problem with simply giving consumers subsidies or rebates is that (a) it does not encourage energy conservation, and (b) it can lead to an unwelcome 'welfare mentality', with some consumers feeling uncomfortable about taking what they may see as a government handout.

Experience can be drawn from foreign jurisdictions such as the United Kingdom, where set proportions of profits made from carbon emission reduction schemes are used to fund energy efficiency schemes targeted at low-income households.¹¹

Some of the energy efficiency programs targeting low-income households that PIAC has previously argued for, and which would be suitable for funding under such a scheme, include:

- All beneficiaries of Centrelink payments (other than Family Payments and Family Tax Benefits) should be eligible for the free installation of ceiling insulation (where appropriate) and low-energy lighting and the replacement of electric storage hot water systems with gas or (where possible) solar hot water systems.
- All low-income households not covered above (as assessed by a means test) should be eligible for the above initiatives at a fixed, uniform low cost.
- The same initiatives should be implemented in all appropriate public housing at no charge to tenants.
- All the above recipients of Centrelink benefits and low-income households should be provided with significant rebates, ie, at least 50% of the retail price, for the purchase of new appliances with a minimum of four star energy ratings to encourage the replacement of old, inefficient appliances, and have access to no-interest loan schemes to avoid one-off unaffordable expenditure.
- Landlords should be required, under the *Residential Tenancies Act 1987* (NSW) (and its equivalents in each state and territory), at the start of every new lease, to install or maintain plumbing products, sanitary ware and whitegoods with ratings of at least four stars under the national Water Efficiency Labelling and Standards (WELS) Scheme.

In supporting these initiatives, it is critical that they be offered not as partial or untargetted subsidies on otherwise relatively expensive purchases such as ceiling insulation, solar heating, solar power or energy efficient whitegoods, since such rebates are typically taken up mostly by middle and high-income households with relatively high discretionary incomes.

As well as encouraging greater energy efficiency, PIAC supports a range of complementary measures to reduce emissions from coal-fired generation while benefiting residential consumers, including:

¹⁰ Garnaut Climate Change Review, above n1 48.

¹¹ See the comment on the Carbon Emissions Reduction Target scheme from the UK Department of Environment, Food and Rural Affairs: <<http://www.defra.gov.uk/news/latest/2008/climate-0402.htm>> accessed 10 April 2008.

- The introduction of social and environmental outcomes in the Objective of the National Electricity Market (NEM) to complement the existing economic objective.¹²
- The introduction of a national energy-efficiency trading scheme (along the lines of the Victorian Energy Efficiency Target to commence in 2009) designed to impose no additional cost to low-income consumers.
- The introduction of a generous national regime for feed-in tariffs for embedded generation.
- The provision by retailers of simple plug-in, in-home displays at no cost to residential consumers as part of any national rollout of smart meters, which would otherwise be of benefit mostly to network companies.

However, there will still be groups of low-income households that may not be adequately compensated by the above measures. For instance:

- While private tenants may benefit from lower energy bills resulting from better insulation, appliances, etc., private landlords are unlikely to spend the additional money if there is no economic benefit to them, or unless they are forced to do so. A targeted strategy therefore needs to be adopted for the national private rental market, which may involve, for example, generous rebates or even free retrofits and appliances in return for two-year rent caps to ensure affordable tenancies are maintained.
- Some other low-income households, such as old-age pensioners with much of their net wealth tied up in their homes, may already have invested in energy efficient homes, fittings and appliances, and may need to be compensated for higher energy costs through higher rebates on their bills, perhaps with the extra rebate dependent on the result of a household energy audit.
- Large families on low incomes may require specific attention, eg, by being invited by energy retailers to self-identify to qualify for the same energy efficiency initiatives referred to above for other low-income categories, or for the same rebates as offered to pensioners.

Conclusion

It is likely that there will be considerable initial and ongoing haggling over the allocation of permit revenues. PIAC therefore recommends that the sectoral allocation of this revenue be set by legislation with provision for periodic review. This legislation should include an overriding objective such as the following, as well as allowing for the interim reallocation of revenue to override the allocation formula where there is evidence that the social objective is not being met:

The principal objective of the allocation of revenue from the sale of emissions permits shall be to ensure that low-income households are not disadvantaged by higher energy and transport prices. In meeting this objective, priority shall be given to incentives to improve household and transport energy efficiency.

PIAC would welcome the opportunity to discuss this submission with Professor Garnaut.

¹² The National Electricity Objective, as stated in the National Electricity Law is currently 'to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to (1) price, quality, safety, reliability, and security of supply of electricity; and (2) the reliability, safety and security of the national electricity system: <<http://www.aemc.gov.au/electricity.php>> accessed 10 April 2008.