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**Submission to the Carbon Pollution
Reduction Scheme Green Paper**

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The Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit law and policy organisation that seeks to promote a just and democratic society by making strategic interventions on public interest issues.

PIAC identifies public interest issues and, where possible and appropriate, 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.

Established in July 1982 as an initiative of the Law Foundation of New South Wales, with support from the NSW Legal Aid Commission, PIAC was the first, and remains the only, broadly based public interest legal centre in Australia. Financial support for PIAC comes primarily from the NSW Public Purpose Fund and the Commonwealth and State Community Legal Centre Funding Program. PIAC also receives funding from the NSW Government Department of Energy and Water for its work on utilities, and from Allens Arthur Robinson for its Indigenous Justice Program. PIAC also generates income from project and case grants, seminars, consultancy fees, donations and recovery of costs in legal actions.

Energy + Water Consumer Advocacy Program (EWCAP)

This Program was established at PIAC as the Utilities Consumers' Advocacy Program in 1998 with NSW Government funding. The aim of the Program is to develop policy and advocate in the interests of low income and other residential consumers in the NSW energy and water markets. PIAC receives policy input to the Program from a community-based reference group whose members include:

- Council of Social Service of NSW (NCOSS);
- Combined Pensioners and Superannuants Association of NSW (CPSA);
- Park and Village Service;
- Ethnic Communities Council NSW;
- Rural and remote consumers; and
- Institute of Sustainable Futures, University of Technology

1. Introduction

PIAC welcomes the opportunity to provide comment to the Carbon Pollution Reduction Scheme (CPRS) Green Paper. PIAC supports action towards greenhouse gas abatement with the acknowledgement that low-income and vulnerable households will be disproportionately affected under business as usual scenarios¹. However, PIAC recommends policies that ensure low-income and vulnerable households are not similarly disadvantaged due to the proposed CPRS.

This submission focuses on compensation and protections for households, particularly low-income households. PIAC notes that there has been a lack of discussion about protecting households from hardship caused by the proposed CPRS. PIAC suggests that this misses the fundamental effect of resulting price increases on vulnerable households: consumers already facing hardship will experience further disadvantage as the cost of energy and other essentials become increasingly unaffordable.

PIAC also notes a lack of discussion of protection for low-income consumers from the climate effects of global warming. Even with a concerted global effort to reduce emissions it is most likely that temperatures will rise and low-income and disadvantaged households will be most adversely affected. For this reason protections must be extended to mitigate this outcome.

2. Compensation and protections for households

It is important that the targeting of household compensation and protection is correct. In order to achieve this, PIAC suggests the framework below to guide the development of compensation and protection. This framework identifies undesired outcomes of the CPRS. Programs developed against this framework are then suggested to assist vulnerable community members to adjust to the post-CPRS economy.

PIAC highlights the importance of introducing compensation and protection measures before the start of the CPRS. The lag time between the implementation of CPRS policies and rolling out capital and welfare programs risks leaving vulnerable households stranded with high energy bills and cost of living expenses.

2.1 Energy disconnection and under-consumption

The proposed CPRS is designed to reduce the emission of greenhouse gases by sending a price signal through the Australian economy. One outcome will be increasing the cost of emission intensive commodities. Due to the emission intensity of the energy industry it is expected that household energy bills will rise most significantly due to the CPRS.

It is important to acknowledge the current extent and impact of energy disconnection and under-consumption.² Disconnection and under-consumption occur due to an inability of financially stressed households to meet the cost of energy bills.³ The result is limited access to heating, cooking and other essential activities. This impacts upon the hygiene, health and general living standard of residents of the household.

¹ Garnaut, R. (2008) *Garnaut Climate Change Review Draft Report*, <[http://www.garnautreport.org.au/draft.htm#Draft Report](http://www.garnautreport.org.au/draft.htm#DraftReport)> Pg 235

² Ross, S, Wallace, A & Rintoul, D (2005) *Cut off: The impact of utility disconnections*, report prepared by Urbis Keys Young for the Utility Consumers' Advocacy Project, Sydney. Pg 4

³ Ross, S, Wallace, A & Rintoul, D (2005) *Cut off: The impact of utility disconnections*, report prepared by Urbis Keys Young for the Utility Consumers' Advocacy Project, Sydney. Pg 14

It is especially important to acknowledge the impact of the CPRS on households currently facing disconnection and under-consumption, engaged in energy hardship programs or at risk of hardship. PIAC argues that compensation and protections under the CPRS schemes must, as a minimum, neutralise the impact on consumers facing disconnection and hardship.

2.2 Access to price signal response

The proposed CPRS is designed to create a price signal in the economy that will reduce the amount of carbon pollutants emitted. PIAC is concerned about the ability of the CPRS to achieve this aim if it does not acknowledge the inability of some consumers to respond to this price signal. For example, if the most effective response to the CPRS is to replace an electric hot water system with a solar-hot water system, some households will be locked out of this response due to the high upfront costs.

If action is not taken to address this lack of access low-income households will experience greater costs without contributing to carbon gas abatement. Below are suggested energy efficiency programs that seek to overcome this challenge.

2.3 Cost of living effects

Placing a price on carbon emissions will raise the cost of living due to the flow on effects on food and other essential goods.⁴ It is important to ensure compensation and protection under the proposed CPRS ameliorate the regressive impact on the existing welfare system.

PIAC suggests a response to this challenge at point (9) below.

3. Targeting

It is important to get the targeting of compensation and households protection right. The importance of this is to:

- a) Minimise, where possible, the income and transfer effect of compensation and keep the integrity of the CPRS.
- b) Ensure that more funds are available to the consumers in most need, those being low-income households at risk of energy disconnection.
- c) Ensure that the CPRS does not compromise the standard of living available under the current welfare system.

It is important for the Government to avoid the temptation to use funds raised from the CPRS to compensate middle-income households for the rise in the cost of living due to the CPRS. Any effort by the government to do so will reduce the effect of the price signal, and therefore the effectiveness of the CPRS. It will also reduce the level of compensation available to those facing genuine hardship due to the resulting rise in the cost of living.

There is justification for programs that assist carbon abatement for all households. Examples include rebates for appliances with a high up-front cost, research and development of new technologies and assistance bringing these technologies to market. However, these programs should be funded externally to the CPRS.

⁴ Garnaut, R. (2008) *Garnaut Climate Change Review Draft Report*, <[http://www.garnautreport.org.au/draft.htm#Draft Report](http://www.garnautreport.org.au/draft.htm#DraftReport)> Pg 235

3.1 Petrol

PIAC is greatly concerned about the proposal to reduce the level of fuel excise in line with the rise in fuel cost due to the CPRS.

Firstly there is concern about the message sent to the general public about the intended impact of the CPRS. The cut in fuel excise indicates that the government is willing to directly offset any cost associated with the CPRS and that the public will not need to modify their behaviour to cut carbon emissions. PIAC believes this message to be dishonest and damaging to future efforts to avoid climate change.

Secondly, this program is badly targeted and fails the tests outlined above. PIAC suggests that in the place of a fuel excise cut the rise in transport fuel costs be included in the basket of essential goods suggested at point (9) below so that compensation is targeted to those households facing the most risk of hardship due to the CPRS.

4. Energy Efficiency

Energy efficiency programs can maintain the living standard of low-income households in a post-CPRS economy whilst minimising the long-term cost of supplementing welfare payments. Energy efficiency programs also significantly reduce carbon emissions whilst maintaining the integrity of the CPRS.

Further reason for compensation and protection through energy efficiency measures, as opposed to compensation through the taxation and welfare system, is that it reduces the impact of income and transfer effects. The provision of additional income to offset the increased cost of energy would reduce the desired effect of the price signal, therefore reducing the effectiveness of the CPRS. By implementing energy efficiency programs as compensation, the income and transfer effects are greatly reduced.

5. A multiple level approach to energy efficiency

Any program to compensate and protect households through the CPRS should acknowledge that consumers will be hit in different ways and by differing amounts. In order to design a compensation and protection scheme that can be rolled out in a practical way PIAC supports calls from the welfare sector for a three level compensation scheme. An example of how this might look is given below.

5.1 Level one

A large number of Australian households face a disproportionately increased cost of living because of a lack of affordable responses to CPRS price signals.

PIAC recommends that these households be eligible for basic, low cost energy efficiency programs. For all low-income households it would be appropriate for the Government to supply energy efficient light bulbs, showerhead flow restrictors and draught stoppers. These households should also have access to a No Interest Loan Scheme (NILS) to assist in the purchase of energy efficient appliances such as fridges, hot water heaters, washing machines and household heating and cooling. The government's Green Loans Program could be expanded to fill this role. This program might be available to 2 million Australian households.

It should be noted that many households have already received this level of assistance from state government programs and through energy retailers. This would mean that level one of this program would be affordable not only because of the low administrative and assistance cost, but also because of a low take up rate.

5.2 Level two

Level two would target households that are facing financial hardship due to the increased cost of energy through the CPRS. This could be achieved by rolling out this level of the program to all households relying on government welfare benefits. In addition to the measures available in level one of this program, level two would be expanded to include the provision of under-floor and ceiling insulation.

On average heating makes up around 38% of total energy consumption, with cooling also a major contributor to energy use.⁵ By providing and installing insulation for houses without, or with inadequate, insulation the Government would not only reduce the expense of heating and cooling, but also reduce the risk of under-consumption, significantly reduce greenhouse emissions and reduce the need for future augmentation of electricity networks due to peak demand.

5.3 Level three

Level three of this program is targeted to those households at risk of disconnection and under-consumption.

Energy retailers are the best placed to identify customers facing hardship and disconnection as they deal with these households through the provision of their services. It is now best practice for retailers to have hardship programs, and in some jurisdictions it is compulsory. For example, in NSW it is a legislated requirement for energy retailers to make payment plans available to customers facing difficulty paying their bills. It would therefore be appropriate to require energy retailers to refer consumers facing hardship into this level of the program.

Level three of the program would include the measures from levels one and two, but would further include hot water heater upgrades, provision of energy efficient appliances and comprehensive in-home energy audits. Water heating contributes significantly to household energy bills, and upgrading to solar hot water where possible, or gas where appropriate, would save an average of \$126 p.a. for households⁶ and reduce the net amount of Australia's carbon emissions.

There are specific considerations for development of in-home energy audits, as outlined below at point (7).

6. Appliances

The program above includes different measures to assist households responding to the CPRS by reducing both energy bills and carbon emissions. It is important that appliances eligible for use in this program be energy efficient. This would ensure that household energy bills would remain low over the lifetime of the appliance.

6.1 No Interest Loan Schemes

No Interest Loan Schemes (NILS) are often promoted as an opportunity to assist low-income and vulnerable households adjusting to the CPRS. Whilst NILS can be of great assistance to some households, they are not appropriate to the households in most need of assistance.

Many vulnerable households do not have the capacity to pay back no interest loans. Similarly, many households in financial stress are already in debt and it would be ineffective and irresponsible to offer further

⁵ Department of Environment, Water, Heritage and the Arts (2008) *Energy use in the Australian residential sector 1986 – 2020*. <<http://www.environment.gov.au/settlements/energyefficiency/buildings/publications/energyuse.html>> Pg 40

⁶ ACOSS, ACF and Choice, *Energy and Equity, Preparing households for climate change: efficiency, equity, immediacy*. <<http://www.acoss.org.au/Publications.aspx?displayID=1&subjectID=11>> Pg 17

debt. It is for this reason that PIAC suggests the provision of free appliances as applicable in level three of the program above.

6.2 Minimum standards

Many low income households will choose appliances based on the lowest price available, even though affordable alternatives might be available that are more cost-effective over the lifetime of the appliance. In many cases this is to manage the short-term risk of limited disposable income.

PIAC supports the introduction of tighter minimum standards for electrical appliances and the banning of appliances that are significantly below grade. The resulting increase in the cost of living should be factored into the basket of goods as outlined at point (9).

PIAC also recognises the need to consider the availability of affordable alternatives on the market before a product is banned.

7. Comprehensive energy audits

Whilst the area of comprehensive in-home energy audits, particularly on the scale required in response to the CPRS, is new and there is no clear best practice, a number of factors have emerged in the design of a successful in-home audit program. Successful in-home audits:

- Include the community sector, though not necessarily as service provider, to utilise existing networks and localised knowledge
- Are available at times that suit low-income households
- Evaluate and address behavioural change
- Involve as many household members as practical, including dependant children and teenagers
- Are mindful that financial crisis is not the most practical time to address long term behavioural change
- Evaluate the success of the audit, for example through monitoring the four energy bills prior and subsequent to the audit
- Include follow-up contact and the ability for consumers to seek further information after the audit
- Employ appropriate communication, including regular contact, plain English and community languages.

PIAC is supportive of the precedents set by the Water and Energy Savings (WEST) program of the ACT Essential Services Consumer Council, and the Kildonan UnitingCare Energy Program.

8. Issues for tenants

Tenants face particular challenges under the CPRS. This relates to the split incentive between the landlord, who has the ability to make property improvements that reduce carbon emissions and household energy bills, and the tenant, who is the beneficiary of such changes. Property improvements that act to reduce household energy bills include upgrading hot water systems and insulation.

8.1 Social Housing

As the property owner and landlord for public housing, and having identified public housing tenants as vulnerable to the cost of living, the collective governments of Australia have a responsibility to ensure public housing stock is energy efficient. As community housing tenants are acknowledged as similarly vulnerable and under special tenancy arrangements, this assistance should also be extended to the community housing sector.

PIAC strongly suggests that, at a minimum, all existing social housing stock be re-fitted with solar hot water or gas hot water systems as appropriate, under floor insulation and ceiling insulation. All social housing tenants should also have access to comprehensive in-home energy audits.

All new public housing stock should be built to stringent energy efficiency standards that ensure energy affordability for future tenants.

PIAC acknowledges that the Commonwealth Government does not have primary responsibility for social housing, and that this remains in the power of the states. PIAC suggests that it would be appropriate for the cost of capital improvements to social housing stock should be shared with the state governments in acknowledgement of their responsibilities to their tenants. This would also leave more funds from the CPRS for other compensation and protection measures.

8.2 Private Rental

More significant is the challenge posed by the private rental market, given the government's lack of direct ownership and the issues of targeting assistance to low-income tenants. PIAC suggests that minimum standards for insulation and solar or gas hot water systems be mandated for all private rental properties across Australia, with favourable tax concessions to assist landlords with the cost of the property improvements.

PIAC acknowledges that this does not accord with the targeting of compensation and protections as outlined at point (2) above, however it is considered to be a necessary compromise in order to achieve equity for low-income and vulnerable households.

This policy would not however protect all of the most vulnerable tenants. For example, caravan park tenants, tenants in unlicensed boarding houses and in unregulated private rental would not necessarily receive these protections, and are often among the most vulnerable members of the Australian community. Further policies must be developed for the protection of these tenants.

9. Taxation and Welfare

The measures outlined above deal with increased household energy costs due to the proposed CPRS. They do not deal with other increases to the cost of living generated by the CPRS. Other essential goods set to increase in price include food, transport fuel and some manufactured goods. It is important to address these increased costs in order to maintain the integrity of the existing tax and welfare system.

PIAC suggests that comprehensive data be collected on the effect of the CPRS on a basket of essential goods. This basket would include items such as food, transport fuel and energy. Compensation should be made to low-income households through the taxation and welfare systems to cover the increased costs reflected in this basket of goods, after taking into account the level of abatement through complimentary measures (such as energy efficiency programs) and adjusted annually.

One challenge is the regional differences in changes to the cost of living from the CPRS. For example, in the energy sector the rise in energy prices in some states, for example Victoria with its reliance on brown coal, will be greater due to the higher carbon intensity of that state's electricity generation and the constraints of inter-state connectors in the National Energy Market. To continue with the Victorian example, the high penetration of reticulated gas also changes the fuel mix relied upon by consumers. PIAC suggests that any compensation must take such regional variations into account.

10. Effective CPRS design

PIAC accepts the need for action to mitigate predicted climate change and supports the broad outline provided in the CPRS Green Paper. PIAC emphasises the importance of the CPRS being designed to effectively reduce carbon emissions at the lowest possible cost to consumers.

One factor threatening this is the proposed compensation to business for the introduction of the CPRS. PIAC acknowledges the arguments for compensating emission intensive trade affected (EITA) businesses to avoid carbon leakage, however maintains that the level of compensation must be tempered by an understanding of the high capital costs incurred in closing an Australian plant and re-establishing overseas, and Australia's continued comparative advantages.

PIAC does not support calls for compensation for emissions intensive (EI) businesses to the value of their emissions. In some industries, such as energy generation, there may be need to partially compensate for the reduced value of assets only in order to maintain the confidence of future investors in that sector. Any compensation justified in this case should be one off at the introduction of the scheme.

Any compensation to EI businesses should be designed to both keep the integrity of the CPRS and to minimise the income and transfer effect on the price signal. To achieve this, compensation to EI industries, if deemed necessary, should not take the form of free carbon emission permits but as cash grants. These grants should also be linked to plant retrofits and research and development that would assist these businesses taking part in the future, emissions constrained, economy.

11. Conclusion

PIAC supports the Government's efforts to address the challenge of climate change after the inaction of recent years. PIAC also argues that efforts to mitigate climate change should in no way disadvantage the most vulnerable members of the Australian community.

Under a range of scenarios, from business as usual through to decisive government intervention, low-income and vulnerable households are to be most affected by climate change. Low-income and vulnerable households will also be the most disadvantaged under the proposed Carbon Pollution Reduction Scheme, due to an inability to respond to the scheme and an inability to meet the subsequent rise in the cost of living.

PIAC strongly urges the government to implement a program of compensation and protections targeting low-income households, as outlined above. This program should include energy efficiency measures in order to maintain affordable energy bills and maintain the goals of the carbon Pollution Reduction Scheme.

This program should also include changes to the tax and welfare system to help households meet the resulting rise in the cost of living not covered by energy efficiency measures. This should be adjusted on a basis of a basket of goods targeted specifically to capture the cost of living for low-income households. This would ensure the real value of compensation would not degrade over time.