

# TREASURY EXECUTIVE MINUTE

10/3103

Minute No.

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22 November 2010

Deputy Prime Minister and Treasurer

## CLIMATE CHANGE [s 22] TREASURY VIEWS

PRELIMINARY

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- In the context of the tight fiscal environment and the need to achieve large-scale abatement in order to meet Australia's international emissions reduction commitments, Treasury argued in its Incoming Government Brief that many alternate policies 'only achieve small abatement outcomes at high costs per tonne of abatement'.

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(2) preliminary Treasury assessments of the efficiency of each of the above mechanisms; and (3) basic descriptions of each mechanism.

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## **ADDITIONAL INFORMATION**

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## PRELIMINARY TREASURY ASSESSMENTS

As context, the current world carbon price was around A\$17-20 per tonne<sup>1</sup> of CO<sub>2</sub>-e on the 19<sup>th</sup> of November 2010.

Program	Effectiveness (cost)	Abatement (scale)	Impact on electricity prices	Additional abatement <sup>2</sup>	Transitional to carbon price	Other comments
Large scale Renewable Energy Target (LRET)	Medium	Medium	Medium	No	Yes	LRET achieves abatement at a lower cost relative to direct action. To minimise cost, technology neutrality is key.
Small scale Renewable Energy Scheme (SRES)	Low	Low to Medium	Medium	No	No	Multiplier distorts technology neutrality. Also may duplicate state and territory support for many small scale technologies.
Cleaner Car Rebate	Low	Very low	None	No	No	Particularly expensive cost/tonne
Green Start: Stage 1 and 2	Low	Very low	None	No	Yes	Governance risk. May crowd out private initiative and duplicate / displace state & territory programs
National Solar Schools Program	Low	Very low	Low	No	No	Duplicates state and territory programs and RET support.
Solar Hot Water Rebate	Low	Very low	None	No	No	May duplicate state and territory programs and RET support.
Coalition Direct Action Plan (As proposed)	Low to Medium	Low to Medium	Low	No	No	Significant budget risk relative to a carbon price.
Coalition Direct Action Plan (As scaled up to meet -5% target <sup>3</sup> )	Low	High	Low	No	No	Likely to have major fiscal costs.

<sup>1</sup> Source: [www.carbonpositive.net](http://www.carbonpositive.net) — EUA Dec10 (EU-ETS Phase II) €14.96 and CER Dec10 (Secondary CDM) €12.35.

<sup>2</sup> To that achieved in *covered* sectors under a cap-and-trade carbon price.

<sup>3</sup> This option assumes funding is uncapped — instead government purchases abatement until the -5% on 2000 levels by 2020 target is met.

## **BASIC DESCRIPTIONS**

### **Large scale Renewable Energy Target (LRET)**

Requires that 41,000 GWh per annum of Australia's electricity supply comes from large-scale renewable energy, such as wind farms, by 2020. The LRET guarantees a market by requiring electricity retailers and wholesale electricity users to purchase a fixed amount of tradable renewable energy certificates (RECs) each year. The extra income that can be earned from sale of RECs creates an incentive to install more large-scale renewable technologies. The price of large-scale RECs is allowed to vary. (Combined SRES and LRET renewable energy generation is expected to reach 22 per cent of Australia's electricity supply by 2020. The LRET target was reduced from 45,000 GWh to take into account expected generation under the SRES.)

### **Small scale Renewable Energy Scheme (SRES)**

Applies to small-scale systems, such as household solar panels, and is characterised by a fixed REC price of \$40, with an uncapped quantity over time. Liable entities are required to purchase whatever small-scale RECs are issued in the market. The SRES also includes a '*multiplier*' which applies to the first 1.5 kilowatts (kW) of capacity of rooftop solar PV systems.

### **Cleaner Car Rebate**

Households that trade in a car manufactured before 1 January 1995 will be eligible for a \$2,000 rebate when they purchase a new car that has a Green Vehicle Guide greenhouse rating of six or higher, provided the existing vehicle is scrapped.

### **Green Start Stage 1 and 2**

Round 1 will provide grants to individuals or organisations to undertake and fund the delivery of on-site home energy assessments for households to improve the energy efficiency of their homes.

Round 2 will provide grants to organisations including community and welfare sector NGOs, to assist low income and disadvantaged households improve their energy efficiency and support implementing projects or actions to reduce energy use.

### **National Solar Schools Program**

Offers grants of up to \$50,000 for single campus schools and up to \$100,000 for multi-campus schools to install solar power systems and other renewable energy and energy efficiency measures.

### **Solar Hot Water Rebate**

Assists households to replace electric storage hot water systems with solar or heat pump hot water systems. Eligible households can claim a rebate of \$1,000 for a solar hot water system or \$600 for a heat pump hot water system.

### **The Opposition's Direct Action Policy**

Provides a system of incentives for abatement beyond a baseline, coupled with penalties for emissions above a baseline. Abatement is to be funded through a competitive tender process, via an Emissions Reduction Fund. An average of \$1.2 billion per year would be provided to 2020.