Warringah Council

8.5 Financial Impact of Clean Energy Legislation

EXECUTIVE SUMMARY

Purpose

Resolution 302/11 requested a report on the financial impact of the 'carbon tax' including potential risks and opportunities from the legislation.

Summary

The Clean Energy Legislative Package became law in late 2011. Among other measures, it establishes a carbon pricing mechanism. The carbon price will impact councils as producers of emissions and as consumers of goods and services:

- As producers of emissions exceeding 25,000 tonnes of CO_2-e per annum, especially through the operation of landfills.
- As consumers of inputs through electricity consumption (for example for street lighting, council buildings, water and sewerage operations and swimming pools).

Although local councils are ineligible for direct compensation for these cost increases, some relief will be offered by IPART through a specific carbon price related advance of 0.4% to the 2012/13 rate peg.

In addition, the availability of grants through programs such as the Community Energy Efficiency Program will provide potential opportunities to improve the energy efficiency of our facilities.

Financial Impact

It is estimated by various bodies including the Australian Treasury and IPART that the carbon price will increase the CPI by between 0.6-0.7% in 2012/13 with a further increase of 0.1-0.2% in 2015/16.

IPART has estimated that the rise in electricity prices will account for around half the impact of the carbon price on council costs (excluding waste management costs). The other council costs most affected are likely to be those related to construction (steel, bitumen, concrete and timber).

Policy Impact

The legislation has implications for policies relating to fees and charges.

RECOMMENDATION OF DEPUTY GENERAL MANAGER ENVIRONMENT

A. That Council applies for external funding under the Community Energy Efficiency Program, subject to suitable projects being identified.

B. That Council writes to the Premier of New South Wales to highlight the difference between the IPART determination and the actual increase of the carbon pricing.

REPORT

Background

The Clean Energy Legislative Package received Royal Assent in December 2011. The package contains four main Acts:

- The Clean Energy Act 2011 (which sets up the carbon price mechanism).
- The Clean Energy Regulator Act 2011 (which establishes a regulatory body to administer the mechanism).
- The Climate Change Authority Act 2011 (which establishes a new Authority to advise the government on the future design of the carbon price mechanism).
- The Clean Energy (Consequential Amendments) Act 2011.

The package also includes other supplementary measures such as the Jobs and Competiveness Program and the Energy Security Fund.

The package establishes a carbon price mechanism to reduce the amount of carbon dioxide that Australia emits into the atmosphere. This carbon price mechanism will commence on 1 July 2012. From 1 July 2015, the carbon pricing mechanism will transition to a 'cap and trade' emissions trading scheme.

The price that affected businesses have to pay for each tonne of CO_2-e emitted will be $23 from 1 July 2012. It will then increase by 2.5% in real terms for the next 2 years (estimated to be $24.15 per tonne CO_2-e in 2013/14 and $25.40 per tonne CO_2-e in 2014/15). The price will move to a flexible, market-driven price on 1 July 2015.

The Federal Government estimates that 500 companies and organisations, including some councils, will be required to pay for their carbon pollution under the carbon pricing mechanism. The 500 that will pay the carbon price include those operating facilities that have direct greenhouse gas emissions of 25,000 tonnes of CO_2-e a year or more (excluding emissions from transport fuels and some synthetic greenhouse gases). This includes councils which operate large landfills.

Based on our emissions profile, Warringah is not one of these 500 organisations.

However, the carbon price will impact other councils such as Warringah as consumers of goods and services such as energy, water, transport fuels and construction materials.

Policy Impact

The legislation has implications for policies relating to fees and charges as Council may face a shortfall in income from 2012/13 since the 0.4% specific carbon price related advance to the 2012/13 rate peg is expected to be less than the projected CPI increase of 0.6-0.7% in 2012/13.

Financial Impact

Much of the analysis of financial impacts has been taken from the IPART Information Paper *Effects of the carbon price on local councils.*[1] However, other sources are also cited.

1 Impact of Carbon Price on the CPI

Estimates of CPI increases vary slightly depending on the assumptions behind the economic modelling.

[1] IPART (2011) *Effects of the carbon price on local councils* Information Paper

The Commonwealth Treasury estimates that carbon pricing will raise the CPI by 0.7% in 2012/13. A second CPI increase of 0.2% is expected in 2015/16 as the carbon price moves to the world carbon price of $29/t CO_2-e, for a total of 0.9% by 2015/16. Beyond 2015/16 Treasury concludes that there would be minimal implications for ongoing inflation.[1]

IPART considers that Treasury has overstated the CPI increase slightly and concludes that the CPI increases in 2012/13 will be 0.6%. This is because IPART has assumed that employee costs will not rise because of the carbon price. AECOM and the CSIRO have also modelled CPI increases and conclude that the CPI will rise by 0.6% in 2012/13 and 0.1% in 2015/16.[2]

2 Impact on Energy Prices

Council's energy needs rely mainly on electricity (99%) with the rest coming from natural gas (1%).Treasury modelling indicates that prices for utilities (electricity, gas, water and sewerage) will increase by 7.9% in 2012/13. However, electricity prices are projected to rise by around 10% in 2012/13 and gas prices to rise by around 9% in 2012/13. Smaller increases will take place in following years.

Modelling by the energy consultants, Energetics, suggests that with a starting price of $23/t$CO_2$e, the impact on delivered costs for grid electricity supplied to NSW/ACT large users would be in the range of 14-20%.[3] Deloitte Access Economics estimates that with the same starting price, wholesale electricity prices will rise by around 50% and by 10-20% for retail electricity prices.[4]

While Warringah has a fixed price contract for electricity until the end of 2012/13 we have been advised that our existing forward retail electricity contracts do contain clauses that allow for an adjustment to be made in the event of a carbon price being introduced. In late January one of our electricity suppliers, TRUenergy, advised us to expect a price increase as of July 1, 2012 due to the carbon price.[5]

Based on available information, Warringah Council estimates that the following increases in electricity costs would apply from 1st July 2012.[6]

Site	Total estimated annual consumption (KWh)	Additional cost/KWh	Additional Cost
Large Sites	4,749,678	0.02	$94,994
Street Lighting	6,583,336	0.02	$131,667
Small sites	398,074	0.02	$7,961
		Total	$234,622

3 Impact on Fuel Prices

The current fuel tax regime provides fuel tax credits that remove or reduce the incidence of fuel tax for some fuel uses. The fuel tax primarily falls on non-business consumers and light commercial vehicles.

[1] The Treasury (2011) *Strong Growth, Low Pollution Modelling a Carbon Price* Commonwealth of Australia
[2] Hatfield-Dodds, S, Feeney, K., Shepherd, L., Stephens, J., Garcia, C., and Proctor, W., (2011) *The Carbon Price and the Cost of Living – Summary report: Assessing the impacts on consumer prices and households,* a report to The Climate Institute prepared by the CSIRO and AECOM
[3] Energetics (2011) *Carbon Price 2011: Carbon price impact on energy prices* Information Sheet
[4] Deloitte Access Economics (2011) *Assessing the impact of key climate change policies on energy users, a report to the Energy Users Association of Australia*
[5] Letters dated 25 January, 2012 (TRIM records 2012/021194, 021199, 021203, 021207, 021210 and 021215)
[6] TRIM record 2011/144283

By reducing existing fuel tax credits by an amount approximately equal to the carbon price, the Government will impose an effective carbon price on businesses liquid and gaseous fuel emissions through the existing fuel tax regime. This includes petrol, diesel, compressed natural gas (CNG), liquefied petroleum gas (LPG) and liquefied natural gas (LNG).

The equivalent of the carbon price will be applied to these fuels acquired after 1 July 2012 by reductions in fuel tax credits approximately equal to the fixed carbon price from 2012/13 to 2014/15.

When Australia moves to an emissions trading scheme in 2015/16, the fuel tax credit changes will be determined on a 6 monthly basis, based on the average carbon price over the previous 6 months.

Light commercial vehicles (4.5 tonnes or less, gross vehicle mass) and households currently pay the full rate of excise and will not pay a carbon price on fuel. The Government intends to apply a carbon price to heavy on-road transport from 1 July 2014.

This potentially has an impact on Council transport costs, either through vehicles directly operated by Council or through flow-on affects from the use by contractors of heavy vehicles (such as domestic waste collection services).

4 Waste Charges

Landfills with emissions that exceed 25,000 tonnes of CO_2-e per annum will be required to pay the carbon price. It will not apply to waste deposited at landfills before July 2012 (legacy waste). However, emissions from this waste will be counted towards the threshold.

The Government's original intention was to cover smaller landfill facilities with emissions of 10,000 tonnes of C02-e per annum within a prescribed distance of large landfill facilities. The legislation was amended to exempt landfill facilities with emissions lower that 25,000 tonnes CO_2-e per annum for at least 3 years. The Climate Change Authority will review arrangements for these smaller landfills (i.e. between 10,000 and 25,000 tonnes) no later than 2015/16.

The Australian Landfill Owners Corporation estimates that the carbon price per tonne of waste will be $35.70, which may broadly indicate the likely size of any maximum increase in waste charges facing residents.[1]

5 IPART Determination of 2012/13 Rate Peg

IPART has decided to make a specific carbon price related advance of 0.4% to the 2012/13 rate peg that will increase councils' general income and assist in meeting the extra costs they will face from the introduction of the carbon price.

In July 2011 Council estimated that the overall impact on operational and capital expenditure would be around $750,000 for 2012/13.[2] This was based on an assumption of a 0.7% CPI increase.

The 0.4% increase included in IPART's rate cap equates to $275,000. Additionally Domestic Waste Management Charges are anticipated to increase by $110,000 giving a total increase in revenue of $385,000. Given that total costs are expected to increase by between $650,000 and $750,000, a shortfall of between $265,000 and $365,000 or 0.3 to 0.42% additional rates increase is anticipated in 2012/13.

Opportunities to Offset Cost Increases

Local government has been largely excluded from direct compensations measures to offset the impact of the carbon price mechanism. However, apart from recovering some of the costs of the carbon price through a rate peg adjustment and waste management charges, local councils can access various programs to offset the impacts of the carbon price.

[1] Australian Landfill Owners Corporation (2011) *The Carbon Tax and Local Government*
[2] TRIM record 2011/144283

Funding of $330 million will provide grants to local councils and community organisations through three funding streams:

- The extended $200 million Community Energy Efficiency program to support energy efficiency upgrades to council and community-use buildings, facilities and lighting to local councils and community organisations.
- The new $100 million Low Income Energy Efficiency Program to support consortia of local councils, community organisations and energy service companies to trial energy efficiency approaches in low income households.
- The new $30 million Household Energy and Financial Sustainability Scheme to assist low-income households find more sustainable ways to manage their energy consumption.

The Community Energy Efficiency Program (CEEP) is the most likely stream of funding for local councils. Examples of projects that may be funded under this program include:

- Improving public lighting by replacing inefficient incandescent street lights with high efficiency technologies and replacing incandescent traffic lights with modern LED versions.
- Installation of co-generation (combined heating and power) and/or tri-generation systems (combined cooling, heating and power).
- Energy efficient retro-fitting of council and community premises.
- Installing sub metering/smart metering/building energy management systems.

Grants will range from $50,000 to $5 million and will provide matching funding of up to 50% of project costs.

However, it is noted that CEEP is a competitive grants program and competition for funding is expected to be significant.[1]

In addition to CEEP, Council will look to other funding sources to pursue low emission and energy efficiency programs such as through the Waste and Sustainability Improvement Program (WaSIP). Projects will be identified and prioritised through a range of strategies and plans including the Environmental Sustainability Strategy and the Energy and Water Savings Action Plan.

Group Manager Strategic Planning

[1] Gary Richards (DCCEE) pers. comm.3rd November 2011