



20 May 2008

By email: reviews@finance.gov.au

Strategic Review of Climate Change Programs
Department of Finance and Deregulation
John Gorton Building
King Edward Terrace
PARKES ACT 2600

Dear Sir/Madam

Strategic Review on Climate Change Programs

Consumer Action Law Centre (**Consumer Action**) welcomes the opportunity to provide a submission to the Strategic Review of Climate Change Programs (the **Review**), being undertaken by the Department of Finance and Deregulation.

As an initial point, Consumer Action is concerned with the broad terms of the Review, which assumes that programs designed to address climate change issues must be 'complementary' to an emissions trading scheme (**ETS**). While we support the development of an ETS (subject to our comments below), as well as measures aimed at developing a more coherent and streamlined approach to emissions reductions, we do not support a framework that places an ETS at the peak of a hierarchy of climate change programs. From a consumer's perspective, an ETS will not of itself encourage a residential household to reduce their emissions (rather, it is better placed to have an impact on energy generators and other energy-intensive industries). It is our view that an ETS should be 'complementary' to other measures that are aimed at encouraging consumers to consume less goods and services that result in carbon emissions.

In consideration of the Review's reference to the term 'complementary', we defend the value and merit of programs that play a tangible role in greenhouse gas reductions in a manner that enables consumers to take responsibility, beyond price signals, for their consumption decisions.

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About Consumer Action

Consumer Action is an independent, not-for-profit, campaign focused, casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia. Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly.

Design of the ETS

Consumer Action supports the establishment of an ETS, with the primary policy objective of reducing harmful greenhouse gas emissions. It is our view that to be effective, an ETS must involve the auctioning of all permits to emit carbon (as proposed by Professor Garnaut in his discussion paper on an ETS), involve strong financial penalties, and have robust administrative oversight. We do acknowledge that limited compensation might be justified for trade exposed energy intensive industries (**TEEIs**), if it can be shown that these companies will suffer from international competition. However, any compensation should be on a short term, transitional basis only. We also suggest that TEEIs be required to invest in and develop renewable energy technologies if they are provided with free permits. We do not support the free allocation of permits to the electricity generation sector or large energy users. The very premise that the biggest emitters receive free permits defies logic when the scheme is designed to modify big emitter behaviour.

This is of further concern as, unless designed correctly, the Australian ETS could result in significant increased profits for fossil fuel generators, and minimal to no reduction in emissions. The experience of the European Union ETS was that generators passed on a cost of carbon permits, despite being allocated free permits. As stated by Garnaut in his discussion paper on an ETS, this resulted in windfall profits of around £9 billion to generators, at the expense of consumers. Considering this, we strongly believe that measures beyond an ETS are necessary to ensure households are able to reduce their greenhouse gas emissions and manage their costs.

While an increased cost might act as an incentive for some householders to use electricity more efficiently, it is our view that overall, the ability of households to do so is limited by a range of structural factors. Barriers to household energy efficiency include the efficiency standards of buildings and appliances, the split incentive that exists between landlords and tenants, and the inability of low-income households to pay more to be efficient. Perhaps the most significant barrier is the cultural change necessary to convince consumers of the need to consume far less. More complex solutions are required to overcome these problems – a mere price signal through an ETS will not, and cannot, be the silver bullet for delivering residential energy efficiency.

We emphasise the importance that all efforts are made to ensure that low-income and vulnerable consumers are not unfairly bearing the burden of the costs of establishing and managing an ETS. We continue to be concerned about the way in which electricity retailers will pass on the price of carbon to consumers as a flat increase to the cost of essential

services. If an ETS resulted in a flat increase on the cost of essential services, then low-income consumers would be penalised.¹ This penalty is exacerbated by the fact that low-income / low-consumption consumers are not the consumers who need to be receiving signals to reduce their usage as they typically have inelastic load profiles. We believe that the costs of an ETS should be passed on primarily to larger users of energy, so that the price for non-discretionary use is maintained at an affordable level. We note that this would not require any additional government funding, and could be achieved through governments and regulators developing tariff principles and/or regulating tariff structures for residential consumers. It would have the added benefit of specifically targeting the levels of consumption that are intended to be curtailed.

Finally, it is our strong belief that there should be policies and protections in place that help consumers manage the impacts of the ETS. In particular, we ask the Review to recommend that the ETS be accompanied by the following complementary measures, including:

- a comprehensive consumer protection framework that ensures consumers maintain access to essential services;
- the ability for consumers, particularly low income and vulnerable consumers, to engage in actions that will reduce their greenhouse gas emissions;
- programs that promotes increased energy efficiency and renewable energy production outcomes;
- clear objectives to ensure programs are environmentally robust, delivering real reductions in greenhouse gas emissions; and
- the commitment that these initiatives are effective and tangible for consumers.

Measures in addition to an ETS

While the 'aim of this Review may be to ensure that existing climate change programs are efficient, effective and complementary to the emissions trading scheme',² to date, there is limited evidence that the ETS model is able to effectively reduce greenhouse gas emissions to the extent that we need. It is therefore essential that those programs identified as 'complementary' to the ETS:

- Are actively supported to enable them to achieve emissions reductions and are within the reach of consumers;
- Are cost effective;
- Achieve the environmental objectives of reducing greenhouse gas emissions;
- Consider that price signals will not work for all consumers, e.g. low income consumers. Other mechanisms are needed to ensure low-income consumers are able to participate in reducing greenhouse gas emissions but also so they're not unfairly bearing the cost of an ETS;

¹ ACF, ACROSS and CHOICE, *Energy & Equity: Preparing households for climate change: efficiency, equity, immediacy*, April 2008, p 6. Research also demonstrates that lower income groups consume energy at a rate below average household use: Australian Bureau of Statistics, *Household Expenditure Survey, retailed expenditure items*, 2003-04.

² Australian Government Department of Finance and Deregulation, Media Release, 23 April 2008 *Call for Submissions to the Strategic Review of Climate Change Programs 23 April 2008*,

- Protect consumers from unfairly paying for measures that they will pay for through an ETS. Specifically we are concerned about businesses double dipping (e.g, consumers who pay a premium for green power will also be paying a carbon price for all electricity consumption); and
- Acknowledge the many other policy reasons or benefits for retention:
 - GreenPower provides consumer protection/confidence to consumers when they deal with marketing of renewable energy; and
 - Support/rebates for Solar PV or other embedded generation can have benefits for energy networks that are in the long term interest of the market and consumers.

It is also important to note that initiatives shouldn't be excluded merely because they are viewed as 'additional' to an ETS in a cost sense.

Residential Solar PV uptake, the increasing shift of consumers to GreenPower and the increasing demand for hybrid cars are all signals that consumers want to be involved in emissions reductions on a local level. We'd be concerned if measures that are aimed at consumers' "green conscience" were to be excluded because the establishment of an ETS.

In addition, programs promoting energy efficiency such as residential energy audits and retrofits (which introduce minor changes, from replacing seals on refrigerators and introducing draft stoppers, to more significant changes of installing insulation and appliance replacement), result in significant benefits – emissions reductions, reduced energy use (and reduced energy bills) and increased essential thermal comfort for households. We must recognise that energy efficiency measures have significant benefits beyond reducing greenhouse gas emissions. These benefits may justify the maintenance or expansion of policies aimed at improving residential household energy efficiency, even though they may not be the most cost-effective way to reduce greenhouse gas emissions.

There are several opportunities for additional measures to be introduced that will complement an ETS, remain tangible for consumers, result in reduced greenhouse gas emissions and be cost effective. , Importantly, such measures can overcome the barriers previously mentioned. They include:

- A mobilised, well funded consumer education campaign designed to shift consumer behaviour. This would deliver reduced consumption by consumers which continues to drive production in an unsustainable manner;
- Further incentives, such as tax exemptions, so that landlords are encouraged to increase the energy efficiency of tenanted property, where a price signal in energy prices won't encourage them (as they do not live there); and
- Increasing and fast-tracking improved energy efficiency for building and for appliances i.e through the Minimum Energy Performance Standards.

These additional programs, will also achieve the objectives of reduced greenhouse gas emissions without an ETS.

ETS and the National Energy Market

We have significant concerns about the intersection of the ETS with the National Electricity Market (NEM). Our particular concern is that the National Electricity Rules favour fossil fuel generation by placing barriers to the establishment of micro generation or distribution generation³. Barriers across regulation, operational issues and policy making are limiting the uptake of distributed generation by consumers who are increasingly pursuing it, whether it be because they are concerned about the environmental impacts of stationary energy supply, supply reliability or rising energy prices.

We strongly believe that work should be undertaken to overcome these barriers so that the benefits of an ETS could be more readily realised. We note that the Australian Energy Market Commission has begun such work through its review of demand side participation.

There are some NEM reforms that are being pursued as a climate change initiative but we are concerned that they will not have that impact. For example, the proposed rollout of smart meters that potentially offer opportunities for consumers to better manage their energy use will not provide climate change outcomes. The current analysis shows that consumers will respond by shifting their usage to different times of the day, rather than reducing their usage. This may have overall market and efficiency benefits, but there is no evidence that greenhouse gases will be reduced.⁴

Should you have any questions about this submission, please contact us on 03 9670 5088.

Yours sincerely

CONSUMER ACTION LAW CENTRE



Janine Rayner
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³ Szatow, T. Beyond Free Market Assumptions: Addressing Barriers to Distributed Generation, April 2008, p 20

⁴ NERA Economic Consulting, *Cost Benefit Analysis of Smart Metering and Direct Load Control; Overview Report for Consultation*, February 2008 p 205-206