

## Senator Xenophon Additional Comments

1.1 Climate change is one of the biggest challenges facing us as a nation, something of which our farmers in particular are all too aware. I believe we need to take meaningful and appropriate action to address the issue from both an environmental and economic point of view. The cost of not doing so in the next few years effectively will be much greater for generations to come.

1.2 Given the significance of this issue, the solution to it must be well-considered, effective and flexible. It must take into account, and meet, environmental, social and economic needs. I do not believe the current carbon pricing mechanism and associated measures do this.

1.3 I agree that the current mechanisms have created a poor economic outcome without even any reasonable environmental return for the economic impact involved. I did not support the former Government's legislation to introduce these measures for these reasons, not because I do not believe we need to take action on climate change. For me, the debate on these issues is about finding the most cost-effective way to abate greenhouse gases.

1.4 As such, I agree with the comments of some submitters, who called for alternative measures to be in place before the existing scheme is repealed. I believe it is vital that the Government release draft legislation or detailed policy as soon as possible, both to demonstrate their commitment to this issue and to provide certainty for businesses and investors.

1.5 I am also extremely concerned, indeed shocked, that Treasury has not undertaken any modelling to determine whether it is more effective to spend money to reduce high-emissions activity or to spend money to increase cleaner generation activity. This is a significant gap in policy-making, and I strongly believe the Government should commission such modelling as a matter of priority.

**Senator XENOPHON:** In terms of abatement, you could spend money to reduce high-emissions activity or you could spend money to increase cleaner generation activity. I am not saying that is the only way you can do it, but those are two of the policy choices. Does Treasury consider that has a different effect on electricity pricing and on outcomes in terms of abatement?

**Mr Campbell:** We have not undertaken an analysis of the effectiveness of different programs for delivering abatement and its impact on prices.

**Senator XENOPHON:** It is pretty fundamental. Would you agree that it is potentially quite important as to whether you spend money to reduce high-emissions activity or whether you spend it to produce cleaner generation activity. It could have quite significant impacts in terms of the merit order and, presumably, one would be more efficient than the other in terms of abatement, particularly in the context of a direct action scheme.

**CHAIR:** Senator Xenophon, aren't you seeking an opinion?

**Senator XENOPHON:** No, I am asking whether there has been any modelling in respect of the two. Is this something that has been considered by Treasury?

**Mr Campbell:** No. We have not undertaken any work on that.

**Senator XENOPHON:** Is Treasury planning to undertake any work on that?

**Mr Campbell:** We will undertake work if we are requested to do so.

**Senator XENOPHON:** Are you in a position to say whether you would be advising government that it would be prudent to do so in terms of the most-effective use of taxpayers' funds in the context of the most-efficient way of achieving abatement?

**Mr Campbell:** We will make our usual comments to government through the processes around the consideration of the emissions reduction fund in the normal course. We would not be making a decision beyond that.

**Senator XENOPHON:** But you are familiar with the merit order argument? The merit order could be appreciably changed in the context of the electricity market and the effect on prices and also on abatement in the context of how you spend that money—whether it is by reducing high-emissions activity or by increasing cleaner generation activity.

**Mr Campbell:** I am aware of the issues that are at stake, yes.

**Senator XENOPHON:** I am shocked that Treasury has not undertaken any modelling in respect of this. I will leave it at that.<sup>1</sup>

1.6 I would also draw to the Government's attention the modelling done by Frontier Economics in 2009, which was jointly commissioned by myself and then-Opposition Leader Malcolm Turnbull. The Frontier scheme can deliver deeper cuts to emissions at a lower cost than the CPRS and the Carbon Tax, because it avoids the enormous economic cost associated with the revenue churn of the former Government's scheme. Frontier's modelling has estimated that, for every dollar invested in abatement, there is a churn of five to six dollars through the economy. An intensity-based scheme, by contrast, sets emissions targets for industries, particularly the stationary energy sector, and avoids that level of churn and with it distortions and loss of economic activity.

1.7 While I support the committee's comments in the majority report, I also believe it is important to highlight the fact that these matters are not straightforward and that the abolition of the current scheme may not lead directly to a reduction in costs. This is particularly true of the electricity market, where a number of factors are at play. I strongly suggest the Government refer to the matters raised by the Senate Select Committee on Electricity Prices, which need urgent attention.

1.8 The political debate regarding electricity prices over the past few years has been narrow and simplistic. To suggest or imply that the carbon tax is the primary

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1 Mr Russ Campbell, General Manager, Macroeconomic Modelling Division, Department of the Treasury, *Proof Committee Hansard*, 26 November 2013, p. 69.

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cause of electricity price rises ignores the fact that charges for the use of electricity transmission and distribution accounts for about half of electricity bills. Currently, these charges are paid by retailers, who then pass them on to consumers. The doubling of retail tariffs over the past few years can be directly linked to the rise in network tariffs.

1.9 Network tariffs are regulated by the Australian Energy Regulator, which is part of the ACCC. The Rules governing how networks are regulated oblige the AER to provide network businesses with a guaranteed return on their investment, regardless of whether the investment was necessary or worthwhile and regardless of whether the investment is later found to be unnecessary or premature.

1.10 The changes that have been made to address this issue do not go far enough. The Australian Energy Regulator needs the ability to conduct detailed optimisation analyses of electricity networks' asset bases to uncover instances of excessive or premature spending. To the extent this has occurred, network owners need to be penalised so that consumers are not forced to pay for investment decisions that were made with little genuine justification of need or due to electricity demand forecasts that were clearly inflated in defiance of the emerging evidence.

1.11 Finally, I am also concerned about the proposed abolition of the Clean Energy Finance Corporation. A vital part of any scheme to reduce carbon emissions is investment in clean energy projects. The CEFC is not, as the committee report suggests, 'a private bank'<sup>2</sup>, but an agency with specific knowledge and expertise to support renewable energy projects. Utilised effectively, the CEFC's \$10 billion fund, allocated over five years, could make significant changes to Australia's renewable energy sector and emerging technologies. It should not be discounted lightly, and I query whether any modelling has been done to suggest where that funding could be spent with equal effectiveness. I found the evidence of the Chair of the Clean Energy Finance Corporation, Ms Jillian Broadbent, to be compelling.

1.12 Ultimately, I am supportive of the Government's move to abolish the current scheme, with the exception of the CEFC. However, I strongly encourage the Government to release a detailed policy document or draft legislation for Direct Action as a matter of urgency, and for the Government to consider the benefits of the Frontier Scheme, which the Coalition jointly commissioned with me in 2009.

**Senator Nick Xenophon**

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2 Majority report, p. 31.

