



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Community Owned Clean Energy* (letter of 27 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

28 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Community Owned Clean Energy
Summary of proposal:	<p>The proposal has three components:</p> <p><u>Component 1</u></p> <p>This component includes:</p> <ul style="list-style-type: none">• Introducing an income tax exemption for earnings arising from investment in Community Owned Renewable Energy (CORE) projects. Earnings arising from the generation of up to 150 per cent of average annual household electricity consumption would be considered exempt income for the purpose of calculating income tax.• Providing \$150 million over the 2016-17 Budget forward estimates period, \$75 million in 2017-18 and \$75 million in 2018-19, to contribute to the establishment of 50 community powerhouses, with departmental expenses to be met from within the allocated amounts. <p><u>Component 2</u></p> <p>Provide \$2 million per annum from 2016-17 to support the establishment of a Community Power Network to enable business models, strategy and information to be shared between community clean energy projects, with departmental expenses to be met from within the allocated amounts.</p> <p><u>Component 3</u></p> <p>Provide \$100 million over the 2016-17 Budget forward estimates period to support the establishment of a Solar Communities program. The program would replace the existing Solar Towns program and expand access to schools and other public institutions, and to greenfield community renewable projects, and allow funding for solar storage systems, solar photovoltaic systems, and solar hot water systems, with departmental expenses to be allocated in addition to the allocated amounts.</p> <p>The proposal would have effect from 1 September 2016.</p>

Person/party requesting costing:	Senator Richard Di Natale, Australian Greens
Date of public release of policy:	5 June 2016 http://greens.org.au/community-renewables
Date costing request received:	27 June 2016
Date costing completed:	28 June 2016
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to decrease the fiscal and underlying cash balances by \$265.1 million over the 2016-17 Budget forward estimates period. This reflects a decrease in revenue of \$3.5 million, and an increase of \$255.6 million in administered expenses and an increase of \$6.0 million in departmental expenses over this period.

A breakdown of the financial implications over the 2016-17 Budget forward estimates period is provided at Attachment A.

Components 1 and 2 would be expected to have ongoing financial implications beyond the 2016-17 Budget forward estimates period. The impact of the proposal in 2019-20 is indicative of the ongoing impact of the proposal.

The income tax exemption component of this costing is considered to be of low reliability. It relies on a number of assumptions, and variations in assumptions may lead to a significant change in the estimated financial impact.

The remaining components of this costing are considered to be of high reliability, as they have been estimated based on specified capped amounts. However, no analysis has been undertaken to determine the adequacy of the prescribed funding amounts to achieve the objective of the proposal.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-28.1	-103.7	-104.0	-29.3	-265.1
Underlying cash balance	-28.1	-103.7	-104.0	-29.3	-265.1

(a) A positive number represents an increase in the relevant budget balance, a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

- For the purpose of this costing, investment in CORE projects refers to investment in community entities that invest in renewable energy projects, as detailed in the Coalition for Community Energy's *National Community Energy Strategy* report.
- Average household electricity consumption has been estimated based on the *Electricity bill benchmarks for residential customers* report by ACIL Allen Consulting and the *Australian electricity market analysis report to 2020 and 2030* by the Commonwealth Scientific and Industrial Research Organisation (CSIRO).
- The average return and number of investors for CORE projects has been estimated based on the Coalition for Community Energy National Community Energy Strategy report.
- All investors in CORE projects are assumed to utilise the maximum tax exemption in each financial year.

Methodology

- Exempt income for each financial year was estimated based on the number of investors, average household electricity consumption and average return per kilowatt hour.
- An average marginal tax rate for investors in each financial year was estimated using a de-identified 16 per cent sample of personal income tax and superannuation unit record files.
- The financial implications for each financial year were then estimated by applying the average marginal tax rate to the exempt income.
- This costing takes into account the timing of tax collections and the part-year effect of the proposal in 2016-17.
- Administered expenses are based on specified capped amounts. Estimates for the Solar Communities component are based on an even distribution of the specified \$100 million funding over each year of the 2016-17 Budget forward estimates period.
- Departmental expenses for the tax exemption component of the proposal have been estimated based on the expected ongoing administrative cost of compliance and determination of eligible entities for the tax exemption.
- Departmental expenses for the community powerhouses, Solar Communities and Community Power Network components of the proposal have been estimated based on similar previous Budget measures.
- Estimates have been rounded to the nearest \$100,000.

Data sources

- De-identified 16 per cent sample of personal income tax and superannuation unit record files for the 2012-13 financial year from the Australian Taxation Office.
- *National Community Energy Strategy*, Coalition for Community Energy.
- *Electricity bill benchmarks for residential customers* – March 2015, ACIL Allen Consulting.
- *Australian electricity market analysis report to 2020 and 2030*, CSIRO.
- The Department of the Environment (DoE) provided information on funding for the Solar Towns program.
- The Department of Finance provided indexation and efficiency dividend parameters.

Attachment A: Community Owned Clean Energy— financial implications

**Table A1: Community Owned Clean Energy (combined impact) —Financial implications
(outturn prices)^{(a)(b)}**

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Revenue					
Revenue	-0.2	-0.8	-1.1	-1.4	-3.5
Expenses					
Administered	-26.9	-100.9	-100.9	-26.9	-255.6
Departmental	-1.0	-2.0	-2.0	-1.0	-6.0
Total expenses	-27.9	-102.9	-102.9	-27.9	-261.6
Total	-28.1	-103.7	-104.0	-29.3	-265.1

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: Component 1: Introduction of tax breaks for investment in CORE and establishment of Community Powerhouses—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Revenue					
CORE income tax exemption	-0.2	-0.8	-1.1	-1.4	-3.5
Expenses					
Administered – Community Powerhouses	-	-74.0	-74.0	-	-148.0
Departmental – CORE – ATO	-0.2	-0.2	-0.2	-0.2	-0.8
Departmental – Community Powerhouses – DoE	-	-1.0	-1.0	-	-2.0
Total expenses	-0.2	-75.2	-75.2	-0.2	-150.8
Total	-0.4	-76.0	-76.3	-1.6	-154.3

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A3: Component 2: Establishment of a Community Power Network—Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Expenses					
Administered	-1.9	-1.9	-1.9	-1.9	-7.6
Departmental – DoE	-0.1	-0.1	-0.1	-0.1	-0.4
Total	-2.0	-2.0	-2.0	-2.0	-8.0

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A4: Component 3: Replacement of existing Solar Towns program — Financial implications (outturn prices)^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Impact on fiscal and underlying cash balances					
Expenses					
Administered	-25.0	-25.0	-25.0	-25.0	-100.0
Departmental – DoE	-0.7	-0.7	-0.7	-0.7	-2.8
Total	-25.7	-25.7	-25.7	-25.7	-102.8

(a) A positive number indicates an increase in revenue or decrease in expenses or net capital investment in accrual and cash terms. A negative number indicates a decrease in revenue or an increase in expenses or net capital investment in accrual and cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.