

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

4 – 6 June 2013

**Question: BET 38**

**Topic: Cash Compensation to the Private Generators**

**Hansard Page: Wednesday 5 June 2013, Page 29-30**

**Senator XENOPHON asked:**

**Senator XENOPHON:** Further to the questions that Senator Cormann was asking, has Treasury actually undertaken any analysis or any modelling subsequent to providing cash compensation to the private generators to determine whether the financial damage is the same as that predicted by Treasury and which form the basis of the actual money given to these generators?

**Mr Campbell:** The Treasury's Macroeconomic Modelling Division has not undertaken any specific work. It may well be something worth directing to our Markets Group colleagues, who are looking at the energy security aspects of the carbon pricing package. Whether additional work has been undertaken specifically for some generators, I am not sure, but that would be best directed to them.

**Senator XENOPHON:** There may have been modelling done, but I need to ask the Markets Group.

**Mr Campbell:** Certainly not economically-wide modelling or specific bottom-up modelling from electricity sector and health.

**Senator XENOPHON:** But my understanding is that the compensation given to date to some of these private generators is in excess of \$2 billion—is that right?

**Mr Campbell:** I would not be able to confirm that number.

**Senator XENOPHON:** Okay. I explore it, if necessary on notice. In a broader sense then, the compensation was aimed at addressing the economic impact of the carbon tax on coal generators and generators themselves, because the damage to their industry was expected to be significant. But did the government require proof of any economic impact on the generators that it was actually caused by the tax and not by other factors such as the operations of the renewable scheme, which is not compensable, and I am not suggesting it should be. I am just saying to what extent were the generators put to proof that the compensation they received was as a direct result of damage by the carbon tax and not by other factors?

**Ms McCulloch:** The compensation in the coal sector was largely calibrated to the actual price. So, as the carbon price changes, so does the value of the compensation that they get.

**Senator XENOPHON:** But it was not calibrated to the actual losses they may have sustained as a result of the carbon tax. I am suggesting that there are some commentators who are of the view that the compensation that was paid to the generators is not commensurate to any impact that the carbon tax had on them—that there are a number of other factors that could have influenced their economic performance.

**Ms McCulloch:** Are we talking about generators or the coal sector?

**Senator XENOPHON:** Generators.

**Ms McCulloch:** Again, there are a range of factors that the government took into account when it set the level of compensation. As Mr Campbell said, Markets Group is the best place to answer that question. However, it was also around things such as impact on their asset values, the potential impairment of existing assets and their long-term investments.

**Senator XENOPHON:** I understand that. But, if there are other factors that would influence the asset value of generators—for instance, the uptake of renewables, which is something that has had

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bipartisan support—there is an argument that generators may have been overcompensated and that the impact of the carbon tax may have been somewhat less than has been estimated by simply looking at a flat carbon price.

**Ms McCulloch:** All that I can say is that there were a range of factors taken into account in setting that level of compensation, and to suggest that there was some sort of exact lining up with the impact of the carbon price—it would be impossible to actually tell.

**Senator XENOPHON:** In hindsight, though, is there an acknowledgement that some of these generators, specifically the brown coal generators, received excessive levels of compensation?

**Ms McCulloch:** We have not done that level of analysis to assess whether the compensation exceeded the impact of the carbon price on them.

**Senator XENOPHON:** From a policy sense—in terms of going forward with any future policy settings—would that be a desirable thing to do, to find out that there has not been unnecessary compensation given to some of these generators?

**Ms McCulloch:** That would be a matter for a government policy decision as to whether they wanted to go down that road or not.

**Senator XENOPHON:** I might ask the minister then. If there is a question mark as to whether some generators received excessive compensation, is that something that ought to be the subject of analysis?

**Senator Wong:** I will take that on notice. I suppose what occurs to me is that you would need to be careful that you did not introduce a deal of uncertainty into essentially a policy that is about an economic transition.

**Senator XENOPHON:** It is also about—

**Senator Wong:** If you are changing the rules part-way through, which I understand is what you are implying—

**Senator XENOPHON:** If the rules were based on a certain carbon price, and that carbon price has not been realised, in terms of an international price, wouldn't it be reasonable to reassess those settings?

**Senator Wong:** I will take the question on notice. I would make the point, though, that that was not the decision the government made in this budget.

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#### **Answer:**

The Treasury has not undertaken any analysis or modelling of the impact of the carbon price on electricity generators following the Government's provision of financial assistance to highly emissions intensive coal fired generators.

The Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education have provided the following responses to the remaining aspect of these questions on notice:

- The Energy Security Fund provided \$1 billion in cash payments to highly emissions intensive coal-fired generators in 2011-12 and will continue to provide assistance through a total allocation of 41.7 million free carbon units per year from 2013-14 to 2016-17.
- The Department of Innovation, Industry, Climate Change, Science, Research and Tertiary Education is monitoring the impacts of the Clean Energy Future plan on the electricity sector to ensure that the Government's objective of a smooth transition in the sector to lower emissions under carbon pricing is met. The free carbon unit assistance component of the Energy Security Fund is legislated in the Clean Energy Act 2011. There is no mechanism for review of this assistance provided for in the legislation.
- Assistance from 2013-14 to 2016-17 is being delivered in the form of free carbon permits. The value of the assistance will vary accordingly with the price of permits when the flexible pricing period commences on 1 July 2015 onwards.