

# The Coalition's Direct Action Plan

The 'Direct Action plan' was prepared for the 2010 Federal election to outline the broad principles that a Coalition Government would follow in the development of programs to reduce Australia's CO<sub>2</sub> emissions by 5% by 2020. At the centre of the Plan is the Emissions Reduction Fund that will allow industry to sell carbon abatement back to the Government. The Fund will be supported by a range of other initiatives to encourage the expansion of renewable energy generation.

## Major components of the Direct Action plan

Direct Action covers a variety of initiatives to reduce Australia's carbon emissions, including:

- A \$2.5 billion Emissions Reduction Fund to support direct action by business to reduce emissions
- Boosting renewable energy, especially solar
- Support for emerging technologies through the Renewable Energy Target.

### The Emissions Reduction Fund

The Coalition has proposed an Emissions Reduction Fund (the Fund) to support CO<sub>2</sub> emissions reduction projects undertaken by business and industry. Businesses that reduce their emissions below a baseline will be able to sell their CO<sub>2</sub> abatement to the Government.

### Boosting renewable energy

#### Supporting solar energy in homes

Pre-election costings revealed that funding for the One Million Roofs Solar Program would be halved. The new government has indicated that \$50 million will be spent annually across four years. Householders will receive a payment of \$500 rather than \$1000, for the installation of solar panels and solar hot water systems.

#### Supporting Solar Towns and Schools

As of the pre-election costings announcement, funding for the installation of solar PV systems will be \$15 million each year for three years, instead of \$25 million.

#### Geothermal and Tidal Towns

The original Direct Action plan had allocated funding in the order of \$50 million to support the establishment of micro, pilot and demonstration projects with the

potential to provide renewable power to local communities. However, application for funding such projects will now be made to the Australian Renewable Energy Agency (ARENA) for funding.

### Renewable Energy Target

The Coalition has proposed to create a band within the Renewable Energy Target that is reserved for larger renewable energy projects (over 50 MW) for emerging technologies such as solar fields, geothermal projects or tidal and wave projects over 10 MW.



## Key principles of the Emissions Reduction Fund 1

1. The Fund will directly support emissions reduction activities pursued by business. Abatement will be purchased via a market mechanism in order to achieve the lowest cost per tonne
2. The Fund will use the existing National Greenhouse and Energy Reporting Scheme (NGERS) to measure overall company carbon emissions
3. Businesses that reduce their emissions will be able to offer this CO<sub>2</sub> abatement for sale to the government. The mechanism will be a reverse auction
4. Small businesses and other entities not currently covered by NGERS will be able to participate on an 'opt-in' basis
5. The Clean Energy Regulator will be responsible for approving the methodologies, and will be required to ensure that the methodologies support genuine and verifiable emissions reductions
6. Long-term contracts for abatement will be available to assist organisations to secure finance to undertake projects. The payment will depend on delivery
7. Businesses responsible for emissions levels above their 'business as usual' levels will incur a financial penalty. The size of the penalties will be on a sliding scale commensurate with the size of the business and the extent to which they exceed their 'business as usual' levels
8. Provision will be made to ensure penalties will not apply to new entrants or business expansion at 'best practice.'
9. To ensure the Fund supports a broad range of direct action initiatives, measures considered for support by the Fund will be assessed against similar proposals from similar sectors
10. Assessment of projects will also take into account any additional significant public policy benefits.

## Consultation

An incoming Coalition government will hold a White Paper process following the election. It will provide an opportunity for industry to make submissions on issues such as the timing of the auction process and the setting of baselines.

## Timing for repeal of the Clean Energy Future package

Amendment or repeal of legislation in Australia is a complicated process, generally taking place over a number of parliamentary sittings. Saturday's election outcome has resulted in a Coalition majority in the lower house only. The election has surprised with the strong showing of new minor parties, with up to eight Senate representatives. The ALP and the Greens retained 35 seats between them.

### The election outcome and the balance of power

The Greens have *publicly stated their opposition* to the repeal of the Clean Energy Future package and its replacement by the Direct Action plan. They will not support the repeal of the Clean Energy Future legislation based on the "mandate of the Australian" population. The ALP have also dismissed the mandate of the people claim, and remain firm in their support of the Clean Energy Future legislation.

The Coalition has stated that they will take immediate and concrete measures to repeal the carbon price on Day 1 of their political term. The pre-election timetable put forward was overly ambitious and has already been cast into doubt. The repeal of the carbon price is likely take considerably longer.

### Process

From now until 1 July 2014, Labor and the Greens will control the Senate. Following this, the Coalition will need the agreement of at least 6 of the 8 minor representatives to repeal the Clean Energy Future legislation and implement Direct Action.

***The stance of many of these minor players on climate change is uncertain, and subject to change based on individual priorities***

If the legislative amendments repealing the carbon price are blocked by the Senate twice then a Coalition Government may recommend a double dissolution of both houses. Double dissolution processes are time consuming with a minimum three month requirement between the two Senate rejections, and then a second election.

Parliamentary convention dictates that a double dissolution can only occur after the new senators have taken their seats on 1 July 2014. ***Based on this assumption, the earliest that the carbon price may be repealed is September 2014.***

### Legislative construct

The other major factor impacting the repeal of the carbon price is the complexity of the Clean Energy legislation. There are 17 pieces of legislation making up the package, providing for industry assistance, changes to taxation brackets, and increases in household payments intended to act as compensation for many Australian households.

Whilst the Coalition has stated that they will not repeal any aspects of the Clean Energy Future legislation package related to changes in the taxation rates, they have committed to repealing all other features of the legislative package including industry assistance.

***Energetics also believes that irrespective of the date that the Clean Energy Future package is repealed, the associated Regulations can only cease to apply on the first June 30 after the repeal.***

### Proposed timing

The Coalition's "Plan to abolish the carbon tax" states that the Coalition will commence the process of repealing the carbon price on Day 1 of their term.

The White Paper process will start within 30 days of the election, with consultation between Days 60 and 100. The drafting of legislation is to start by Day 100.

The goal is to commence the new scheme by 1 July 2014, subject to the successful passage of legislation through Parliament.



### What does the Direct Action plan mean for business?

Firstly, business will have a range of obligations despite the repeal of the Clean Energy Future package and the enacting of the Direct Action Plan. Business entities liable under the National Greenhouse and Energy Reporting (NGER) framework will need to report as they do currently. And subject to the consultation process, businesses that increase their emissions above business as usual levels will be required to pay a penalty.

Secondly, the Emissions Reduction Fund will reward business for undertaking meaningful action to reduce emissions.

Limited information is currently available in the Direct Action Plan as to whether individual baselines will be founded on historical emissions (which will negatively impact businesses increasing their scope of operations), or historical emissions intensity.

If the carbon price is removed, electricity and gas prices will fall by around 15%, although it will probably coincide with much greater gas price increases in eastern Australian markets as a result of exposure to the export LNG price.

Even with the best possible outcome for the Coalition, the 100 day timeframe for consultation and drafting several complex pieces of legislation is incredibly tight. Business will need to be very proactive in drafting their submissions to the White Paper to ensure adequate consultation time.

### What Energetics is doing?

Precise details of the working of the Direct Action Plan and the Emissions Reduction Fund are not yet available, however Energetics will continue to follow developments. We will keep you advised through our newsletter and direct advisory assignments.

We are also working with our clients to develop proposals for the Coalition about the design of Direct Action and how it can be effective for business.