NSW Business Chamber incorporates

- Sydney Business Chamber
- Australian Business Lawyers & Advisors
- Australian Business Recruitment Solutions
- Australian Business Consulting & Solutions
- Australian Business Apprenticeships Centre
- Australian Business Training Solutions
- Australian Business Defence Industry Unit
- Australian Business Industrial

7 February 2014

Energy White Paper Taskforce
Department of Industry
GPO Box 1564
Canberra ACT 2601

Dear Sir/Madam,

Thank you for the opportunity to comment on the Discussion Paper to inform the forthcoming Energy White Paper. The NSW Business Chamber is one of Australia's largest business support groups, helping around 30,000 businesses each year. Based on its heritage back to the Sydney Chamber of Commerce founded in 1825 and the Chamber of Manufactures of NSW founded in 1885, the NSW Business Chamber works with thousands of businesses, from owner operators to large corporations, from product-based manufacturers to service provider enterprises. Operating through a network of offices in metropolitan and regional NSW, the NSW Business Chamber represents the needs of business at a local, State and Federal level, advocating on behalf of its members to create a better environment for industry.

Rising energy costs have placed and continue to place a significant burden on businesses in NSW. The December quarter results of the NSW Business Chamber's *Business Conditions Survey* shows that 43 per cent of business respondents cite electricity costs as having a "significant" or "very significant" impact on their business. In addition, 20 per cent of gas-using respondents cite gas costs as having a "significant" or "very significant" impact on their business.

Gas Supply

Where possible, action should be taken to mitigate the effects of rising gas prices and to prevent potential shortages of gas supply in NSW. Given the changing dynamics of the eastern gas market, rising gas prices are expected to be somewhat inevitable as domestic gas prices move towards world prices. However, this price pressure should not be exacerbated by supply shortages. Given the abundance of gas supplies in both Queensland and NSW, urgent action should be taken to ensure gas shortages in NSW do not eventuate.

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NSW has abundant supplies of coal seam gas (CSG) reserves – almost 3,000 petajoules (PJ) of Economic Demonstrated Resources (EDR)[1]. Current NSW demand is about 137 PJ per annum and around half of this demand comes from industrial users. Both the Australian Energy Market Operator and the consulting firm Wood Mackenzie have suggested that without additional gas projects coming online, NSW will start seeing limitations in gas availability by around 2016. Timing is critical in ensuring that alternative sourcing and supply mechanisms are developed to guarantee that NSW continues to be able to access the necessary base-load supply of gas for its own use. The NSW Government's submission to the previous Energy White Paper cites analysis from Wood McKenzie which concludes that the shortfall in domestic market supply could be avoided if new projects are developed in a timely manner.[2]

Changes to the eastern gas market will especially affect industries which use gas either or both as a production input and as a heat source such as food processing, manufacturing of fertiliser and some plastics, kiln firing and electricity generation. It could also lead to more broad-ranging impacts on the business sector as higher costs are passed along the supply chain.

The primary solution is to unlock gas production in NSW to provide NSW gas users with an additional source of supply. In order to attract and retain gas industry proponents in NSW, the legislative framework must be stable and achieve the correct balance between protecting the environment and facilitating gas production. While much of this responsibility falls on the NSW Government, it was pleasing to see the Federal Government's announcement to further streamline project approvals. This will ensure timelier project approvals without sacrificing any elements of environmental protections; rather, it is removing duplication.

Gas Markets

While there have already been several successful reforms implemented within the gas market, there remains scope to enhance the gas market further so that it operates more efficiently. In its recent report, *Getting gas right: Australia's energy challenge*, the Grattan Institute argues that there is substantial risk in the current market that a party wanting to obtain pipeline capacity and a party willing to sell capacity would not find each other due to

[1] Geoscience Australia: http://www.australianminesatlas.gov.au/education/fact_sheets/coal_seam_gas.html

[2] NSW Government (2012) *Submission to the Draft Energy White Paper*, p.4.

lack of easy-to-access information[3]. Linking buyers and sellers together more efficiently will become increasingly important in the coming years as gas becomes a more valuable commodity. The NSW Government should continue to pursue, through the Standing Council on Energy and Resources (SCER), reforms to improve the efficiency of the gas market, including improving access to pipeline capacity.

SCER should also continue to prioritise moving towards greater price transparency within the wholesale gas market. The Grattan Institute argues that as the gas market matures, the convention of long-term contracts may increasingly fail to produce optimal outcomes as it prevents transparency of prices, making it difficult for gas consumers to make an informed assessment as to future gas price movements[4]. Given some users may still benefit from the certainty provided with a long term contract, there may be benefit in providing options for both long term and shorter term contracting arrangements.

COAG energy market reform agenda

In light of the Federal Government's proposed repeal of the Carbon Tax and establishment of the Direct Action Scheme, it would be timely to review emissions reductions and green schemes to assess their relevance in terms of effectiveness, impact on energy prices and burdens on business. The Chamber supports a review of the Renewable Energy Target in this context.

COAG should prioritise the importance of increasing Australia's energy efficiency in order contribute to enhancing Australia's competitiveness. This requires implementing mechanisms that encourage demand-side participation and management from energy users, including those in the business sector. These mechanisms should promote energy users' further investment in energy efficiency equipment and practices, and also arm energy users with the ability to respond to price signals e.g. smart metering coupled with time-of-use pricing. If delivered successfully, these mechanisms will provide businesses, as consumers of energy, with more options to achieve direct cost savings in their energy bills, while also preventing or delaying the need for further generation and network investment, which will then be reflected in energy prices.

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[3] Grattan Institute (2013) *Getting Gas Right: Australia's Energy Challenge* p. 22.

[4] Grattan Institute, p. 21.

Privatisation

The NSW Business Chamber supports the privatisation of NSW's electricity transmission and distribution assets. The Productivity Commission recently concluded that:

> *the rationale for government-ownership of electricity network businesses no longer holds. This reflects the development of sophisticated incentive regulations that function best when regulated businesses have strong profit motives…State governments often impose multiple constraints on state-owned corporations that are incompatible with their central purpose of maximising their returns to their shareholders. These constraints include:*
>
> - *social and environmental obligation;*
> - *requirements to procure locally;*
> - *requirements to reduce returns to restrain prices;*
> - *requirements to limit capital spending when governments are concerned about debt levels;*
> - *employees benefits and job security for employees out of kilter with those associated with most businesses; and*
> - *poor governance.*[5]

A report conducted on behalf of the Energy Users' Association of Australia examined revenues collected by privately and publicly owned distributors and found that revenues owned by government-owned distributors in NSW and Queensland have grown far faster than revenues of privately-owned distributors in Victoria and South Australia and this is mostly driven by the size of their regulated asset base. The regulated asset base is growing much more quickly for government-owned distributors because their capitalised expenditure is around four times higher per connection compared to privately owned distributors. The same report found that government-owned distributors are, on average, half as efficient as the government-owned distributors.[6]

[5] Productivity Commission (2012) *Electricity Network Regulation* p. 263.
[6] Mountain, B.R. (2011) *Australia's rising electricity prices and declining productivity: the contribution of its electricity distributors*, pp. v-vi.

Network costs make up around half of a NSW residential gas bill in 2013/14.[7] Therefore, it is clear that government ownership of the networks is outdated and privatisation of these significant assets would help lower upward pressures on electricity bills going forward.

Conclusion

Thank you for the opportunity to comment on this Issues Paper. Please contact Larissa Cassidy via Larissa.Cassidy@nswbc.com.au or (02) 9458 7359 or if you have any further questions.

Yours sincerely,

Paul Orton

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[7] IPART: http://www.ipart.nsw.gov.au/Home/About_Us/FAQs?dlv_faq%20list=(dd_industries=electricity)