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ACCI SUBMISSION TO
ENERGY WHITE PAPER
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ABN 85 008 391 795

Canberra Office

COMMERCE HOUSE
Level 3, 24 Brisbane Avenue
Barton ACT 2600

PO BOX 6005 Kingston,
ACT 2604 AUSTRALIA

T: 02 6273 2311
F: 02 6273 3286
E: info@acci.asn.au

Melbourne Office

Level 3, 486 Albert Street
East Melbourne VIC 3002

PO BOX 18008
Collins Street East
Melbourne VIC 8003
AUSTRALIA

T: 03 9668 9950
F: 03 9668 9958
E: melb@acci.asn.au

W: www.acci.asn.au

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EXECUTIVE SUMMARY

ACCI speaks on behalf of Australian business at a national and international level. Australia's largest and most representative business advocate, ACCI develops and advocates policies that are in the best interests of Australian business, the economy and community. We achieve this through the collaborative action of our national member network and the leadership we provide for more than 300,000 businesses.

Electricity and gas are significant inputs into many Australian businesses. They represent an important cost of business and businesses rely on energy to produce goods and services for the domestic market and export. Maintaining our competitive advantage in energy is an important strategic economic and business goal. ACCI has a strong interest in – and some serious concerns about – how this will be done, particularly given the recent large increases in electricity and gas prices and a number of other significant challenges facing energy consumers in Australia.

This EWP represents an important opportunity – particularly at the strategic level – to ensure that policy settings and decisions help preserve this strategic advantage by ensuring that our electricity and gas markets are competitive, efficient, reliable, effectively regulated, especially as far as monopoly networks are concerned, can respond to legitimate environmental issues and contribute towards an economy that is highly productive. For this to occur, it will be important that the competitive reforms introduced into our energy sector over the past 20 years continue. These should focus on delivering high quality outcomes to energy consumers.

ACCI has considered these matters, including those raised in the Issues Paper in putting together this submission. Where energy reform has been vigorously pursued, it has delivered significant benefits to energy consumers, including business. However, where it has been neglected or compromised, which unfortunately has sometimes been the case, Australian businesses have been penalised.

ACCI has been especially concerned about the large increases in both electricity and gas prices seen throughout Australia in recent years driven, in large part, by failures to pursue consumer-focused reforms. Electricity and gas prices for business have increased by 60 and 44 per cent respectively since September 2009, whereas overall business input costs have increased by only 11 per cent. Gas prices are likely to continue to escalate rapidly in all eastern markets with a tripling or quadrupling of prices possible. Small business has felt the impact of these energy cost increases and is poorly placed to pass them on.

ACCI believes that the EWP should focus on the following matters:



ACCI's Core Strategic Energy Policy Priorities

- Business needs governments to pursue reforms in both the electricity and gas sectors, and at a greater pace, for it to remain competitive. This is seen as a fundamental and urgent issue that must be reflected in the EWP.
- The EWP should strive to put in place a strategy that can both repeat the formula for successful earlier energy reforms and remove some of the obstacles that have been getting in the way.
- The EWP needs to be framed in a way that recognises and develops a strategy around the importance of energy as an input to business.
- The EWP must ensure that future energy policy and regulatory settings:
 - Never again permit large and unjustified price increases and then allow these to go unchecked for significant periods of time.
 - Ensure that poor policy or regulatory decisions are corrected quickly.
 - Ensure that poor policies and regulation are avoided in the first place.
- ACCI does not support the use of domestic reservation policies for gas, which are likely to be ineffective or even counter-productive.
- ACCI would rather see an approach to assisting domestic gas users that focuses on stimulating gas supply, and transparent, open and competitive gas markets as part of a broad energy reform program.
- Seventy-four per cent of energy network assets and one-third of generation capacity in the NEM are still publicly owned, while substantial retail operations in Queensland, Western Australia (WA), Tasmania, the Australian Capital Territory (ACT) and the Northern Territory (NT) are State-owned. But the case for continuing government ownership of electricity assets is weak.
- ACCI supports the sale of remaining government-owned electricity assets to the private sector, including transmission and distribution networks. Indeed, it is the latter where most of the benefits from privatisation to consumers, including small business, will come. We urge that privatisation of remaining publicly-owned electricity assets be supported in the EWP.
- ACCI recognises the benefits for consumers of effective incentive based regulation of monopoly energy networks and therefore supports its application to energy networks. Network charges make up half of an energy customer's bill and are important to reliable energy supply. We support the inclusion of network regulation as a key plank of the EWP.
- However, reforms made in late 2012 have only partly addressed the flaws in network regulation. The flaws include that the design of the regime was intended for privately-owned networks not government-owned ones and their application to the latter disadvantages consumers.
- The EWP should ensure that gaps in network regulation are addressed in a timely way and monitoring the effectiveness of recent reforms by the Standing Council on Energy and Resources (SCER).



- Given that the recent downturn in energy demand may be prolonged, the EWP should seek to understand the reasons behind this better and address how a fundamental shift in demand could affect policy (and regulatory) settings.
- The EWP should include an assessment of retail market issues, such as those raised in this submission and develop a strategic framework to incorporate these into future policy. This strategy should include an assessment of, and monitoring of, the health of competition in energy retailing. Issues raised in the submission include the dominance of a few retailers in electricity and gas markets, the absence of Full Retail Competition in some jurisdictions, the continued application of price regulation, the lack of generator competition in some jurisdictions and the impacts of vertical integration.
- The lack of competition in generation in some States hinders retail competition and diminishes the benefits consumers obtain from competitive electricity supply. Tasmania and Victoria provide contrasting examples of this. An important issue for the EWP is therefore to incorporate a strategic approach that facilitates and encourages healthy competition in generation.
- The EWP needs to recognise the importance of governance and institutional arrangements to energy policy. In particular, the EWP should ensure that the arrangements work efficiently and cost effectively, and deliver benefits to consumers (and market participants).
- The Government has put a high priority on reducing the burden of regulation on business, which ACCI strongly supports. The EWP should ensure that this is the case in energy. Our submission suggests a number of steps to do this including a Productivity Commission inquiry, using Regulatory Impact Statements and obligations of agencies to effectively communicate regulatory decisions to consumers.
- The EWP should ensure that consumer participation and advocacy, including by small business, are integral to energy policy going forward.
- Direct funding of bodies representing consumers must continue to be an important part of the arrangements. For small business this is very important as advocacy by them is unlikely unless funding is provided.
- Small business should be able to participate in forums such as the Energy Consumer Body, Consumer Challenge Panel and energy committees.

Cleaner Energy Issues

- The EWP must recognise that the carbon tax has significantly increased energy prices and costs to business and should support its abolition.
- The EWP needs to take account of how the application of the Emission Reduction Fund will impact on energy policy.
- ACCI supports abolition of the Renewable Energy Target (RET) or, failing that, its significant winding back. ACCI intends to make separate submissions to

the forthcoming RET review. However, ACCI also supports the EWP taking into account the significant costs of the RET and developing energy policies which recognise this.

- The continuation of solar subsidies is a States and Territory matter, but their continuation has national impacts, including on energy policy and overlaps with Federal schemes, especially the SRES. It is therefore legitimate for the EWP to consider the impact of these schemes on national energy policy.
- The EWP should consider the impact that mandatory energy efficiency schemes have on business, especially the higher energy prices and additional regulatory burden they impose. Whilst most of the existing schemes are State ones, it is important that the impacts of energy efficiency schemes are considered in developing a national EWP.
- The EWP should consider the impacts that a range of issues particularly rising gas prices and renewable energy subsidies will have in reducing opportunities for gas fired generation to contribute to lower carbon emissions.
- ACCI does not currently have a position of supporting the development of nuclear power in Australia but recognises that Australia may need to move in this direction if the rest of the world does. Planning and building any nuclear power capacity in Australia will take time (perhaps as long as 20 or 30 years). We are therefore calling for a public debate on these matters and for the EWP to provide a starting point.
- The EWP should include cleaner energy technology as a key strategy and set out a framework to give effect to timely developments in this area. All available technologies should be included. Whilst government support and facilitation may have a key role to play, it is critical to get the policy settings right and to harness private sector creativity.

Recognising the Needs of Small Business in the Energy White Paper

- ACCI believes that it is important that the needs of small business are considered and incorporated into the EWP. This would be consistent with the Government's policy of supporting small business.

1 INTRODUCTION

This submission responds to the Issues Paper released for comment in December 2013 as part of the process of the Australian Government developing an Energy White Paper (EWP). It sets out the Australian Chamber of Commerce and Industry's (ACCI) position in relation to a range of strategic energy policy issues we would urge be incorporated in the EWP.

We endorse the need for an EWP.

ACCI believes that energy is a critical part of the Australian economy, both as an input to business and in its use at the household level. EWP policy settings should reflect its importance to energy consumers.

1.1 About ACCI

1.1.1 Who We Are

The Australian Chamber of Commerce and Industry (ACCI) speaks on behalf of Australian business at a national and international level. Australia's largest and most representative business advocate, ACCI develops and advocates policies that are in the best interests of Australian business, economy and community.

We achieve this through the collaborative action of our national member network which comprises:

- All State and Territory chambers of commerce
- 27 national industry associations
- Bilateral and multilateral business organisations

In this way, ACCI provides leadership for more than 350,000 businesses which:

- Operate in all industry sectors
- Includes small, medium and large businesses
- Are located throughout metropolitan and regional Australia



1.1.2 What We Do

ACCI takes a leading role in advocating the views of Australian business to public policy decision makers and influencers including:

- Federal Government Ministers and Shadow Ministers
- Federal Parliamentarians
- Policy advisors
- Commonwealth public servants
- Regulatory authorities
- Federal Government and national agencies

Our objective is to ensure that the voice of Australian businesses is heard, whether they are one of the top 100 Australian companies or a small sole trader.

Our specific activities include:

- Representation and advocacy to Governments, parliaments, tribunals and policy makers both domestically and internationally;
- Business representation on a range of statutory and business boards and committees;
- Representing business in national forums, including the Fair Work Commission, Safe Work Australia and many other bodies associated with economics, taxation, energy and sustainability, small business, superannuation, employment, education and training, migration, trade, workplace relations and occupational health and safety;
- Representing business in international and global forums, including the International Labour Organisation, International Organisation of Employers, International Chamber of Commerce, the Business and Industry Advisory Committee to the Organisation for Economic Co-operation and Development, Confederation of Asia-Pacific Chambers of Commerce and Industry, and Confederation of Asia-Pacific Employers;
- Research and policy development on issues concerning Australian business;
- The publication of leading business surveys and other information products; and
- Providing forums for collective discussion amongst businesses on matters of law and policy.



1.2 ACCI' s Interest in the Energy White Paper

Electricity and gas are significant inputs into many Australian businesses. They represent an important cost of business¹ and our businesses rely on energy to produce goods and services for the domestic market and for export. ACCI draws attention to the importance of competitively priced energy to support both a healthy economy and the international competitiveness of our industries, be they export or import competing ones. Our abundant supplies of energy have been – and need to remain – a lynchpin to support our international competitiveness.

ACCI has been a strong supporter of an efficient and productive energy supply chain, importantly including the reforms to both electricity and gas that commenced two decades ago. These were grounded in the pursuit of efficiency, productivity and competition for the betterment of energy consumers. Where competition and efficiency have been vigorously pursued, the reforms have delivered benefits to energy consumers, including business. However, where these objectives have been compromised, which unfortunately has sometimes been the case, Australian businesses have been penalised.

ACCI has been especially concerned about the large increases in both electricity and gas prices seen throughout Australia in recent years driven, in large part, by failures to pursue further pro-competitive and productivity enhancing reforms vigorously enough. We are pleased to see that this has been recognised by governments and that there is now evidence that some of the problems that emerged are being tackled. ACCI is keen to be involved in and support such measures, as well as to advocate for their broadening and this submission is reflective of this.

Rapidly rising energy prices have been a major burden on Australian business and have contributed to erosions in their cost competitiveness, even leading to the demise of some. The concerns of business, including small and medium enterprises (SMEs), are manifest in many business surveys, which consistently show that the rapid escalation in energy prices is one of the top issues facing Australian business.

Small business has some particular characteristics which have a bearing on its interaction with energy markets:

- It often faces intense competition, both at home and abroad, and so has difficulty passing on cost increases, such as those seen in energy in recent years. When those cost increases reflect inefficiencies, poor policy and

¹ Australian businesses spend over \$50 billion each year on electricity alone and electricity and gas account for around 5 per cent of their intermediate inputs.



regulation, poor productivity and constraints on competition, as they sometimes have, the burden felt by SMEs is even more serious, ultimately sapping the ability of small businesses to sustain themselves, invest, grow and create jobs.

- Notwithstanding the introduction of competition, our energy markets are characterised by a labyrinth of extensive and often complex regulation. As well as being a cost to, and burden on business, this also has the unfortunate consequence of disengaging business from the energy market and from advocacy. Small businesses are focused on running their business and have limited time or resources to spend on dealing with red tape, or influencing policy and regulation. An unfortunate consequence is that their needs can be overlooked in decision making. ACCI would therefore like to see a simplification of regulation in energy markets and enhanced advocacy by small business. Where it exists, regulation should be used to support competition and efficiency.

1.3 Outline of This Submission

The next section discusses the range of energy policy issues that ACCI believes need to be covered by the EWP. These are particular priorities for the business community, including small business. Section 3 covers a number of cleaner energy issues that are relevant to energy policy and therefore should be considered in developing the EWP. Section 4 briefly canvasses a number of small business needs in relation to the EWP. Finally, section 5 presents our conclusions and recommendations for consideration in developing the EWP.



2 ACCI'S CORE STRATEGIC ENERGY POLICY PRIORITIES

This section focuses on setting out ACCI's key strategic priorities for energy, which we believe are critical to include in the EWP so that it can truly reflect the views of Australian business, including SMEs. It also discusses why they are key priorities. We note that the Terms of Reference the Government has issued for development of the EWP emphasises the need for business to have access to competitive pricing, to productive and efficient energy and to reform of energy regulation. We welcome and support this.

2.1 Business Needs Energy Reform

As mentioned earlier, major reforms have been a feature of Australian energy markets since the 1990s. Importantly for business, these reforms have included the introduction of more competitive energy markets, moves to private ownership, commercialisation of publicly owned assets, disaggregation of vertically integrated energy utilities, more national approaches to energy supply, placing remaining monopolies under incentive based regulation and establishing national agencies to regulate and oversee energy markets. These reforms have been welcomed by business and in the main business has benefited from them. Several reviews have estimated significant economic benefits from energy reform.² However, these reviews also consistently highlighted that the reforms remain unfinished and need to be completed, with significant additional benefits from doing so. Notwithstanding this, reform has tended to stagnate, with many still left unfinished and in need of attention.

In fact, since these reviews were completed electricity prices (now being followed by gas prices) have risen dramatically and national productivity growth has collapsed, emphasising even more the need to pay closer and urgent attention to energy reform. Whilst it is pleasing to see that governments (Federal and State) appear to recognise this and have started to address some of the issues, more still needs to be done and the pace of reform needs to step up. As the Productivity Commission has recently said:

² For example, the Council of Australian Governments Energy Markets Review (2002) and the Energy Reform Implementation Group (2007).



“... the NEM has too often proved to be a graveyard for reform proposals, which then remain as inert words in dead documents.”³

Business is labouring under the weight of costs pressures on several fronts, including rising electricity and gas prices, and poor productivity. It needs governments to keep pursuing a range of reforms in both the electricity and gas sectors, and at a greater pace, so that it can remain competitive. This is seen by the business community as a fundamental and urgent issue that must be reflected in the EWP.

Other parts of this submission address specific areas where further reform is needed. For governments prepared to tackle these issues the economic rewards will take some time but broad and long lasting benefits will follow. For example, it has been estimated that the micro-economic reforms of the 1990s, of which energy was a major part, were a significant factor in heralding in a ‘golden age’ of productivity growth and relatively low unemployment, which had broad ranging benefits.⁴ One of the key enablers for these reforms was willingness on the part of governments – Federal, State and Territory – to accept the need for reforms and agree on a program to deliver them. The EWP should strive to put in place a strategy that can both repeat this formula for success and remove some of the obstacles currently getting in the way.

2.2 Energy as a Business Input

The EWP needs to be framed in a way that recognises and develops a strategy around the importance of energy as an input to business. This includes taking account of the following:

- Electricity accounts for around 4 per cent of business input costs, which is significant. In terms of operating costs it is a significant input and one business take a keen interest in.
- Gas accounts for less than this, but for many businesses that use gas it is a significant input and seen as important to their operations.
- Moreover, there are some industries, such as energy intensive manufacturing, where electricity and gas are one of the largest inputs and it

³ Productivity Commission, Electricity Network Regulatory Frameworks, Inquiry Report, No. 62, Volume 1, 9 April 2013, p. 9.

⁴ See Productivity Commission, Australia’s Productivity Performance: Submission to the House of Representatives Standing Committee on Economics, September 2009.

can comprise around 20-30 per cent of operating costs, ranking second or third in importance. The very large increases in electricity and gas costs seen in recent years have weighed heavily on these industries, eroding their competitiveness, putting the operations of some at risk, even forcing the closure of some and impacting their ability to invest and create jobs. This is not merely an issue for large manufacturing operations but also affects those SMEs whose operations are relatively energy intensive.

- Energy is also important to business costs on an indirect basis because, being pervasive as an input to business, it is embedded in the costs of other business inputs (e.g. materials, equipment and services). The impact of large energy price increases has also feed into inflation and affected business in this way.
- Energy is critical to the production of nearly all goods and services, which need access to energy on a secure and reliable basis. However, the provision of this energy needs to be at a price which maintains our competitiveness and productivity as a nation.

2.3 Electricity and Gas Prices

As mentioned earlier electricity prices have increased very significantly in recent years. The EWP Issues Paper points out that:

“The Australian Bureau of Statistics estimates that household electricity prices have risen 59 per cent over the past four years.” (P. 11)

In fact, the price increases have occurred for longer than this and have been even more pronounced. As the Productivity Commission notes:

“Average electricity prices have risen by 70 per cent in real terms from June 2007 to December 2012.”⁵

Moreover, large price increases have been a feature in all States and have been experienced by both businesses and households at similar rates of increase.

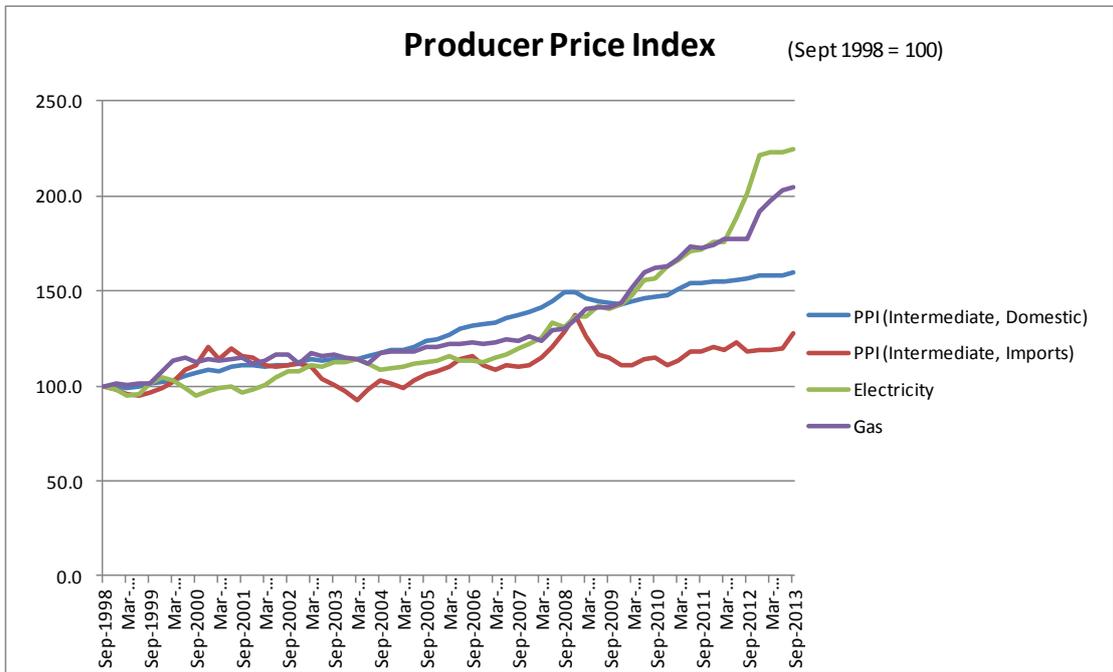
Gas prices have also increased markedly across-the-board in recent years and show every sign of continuing to do so, more than likely at an increasing rate.

⁵ Productivity Commission, Electricity Network Regulatory Frameworks, Inquiry Report, No. 62, Volume 1, 9 April 2013, p. 2.



Figure 1 below shows the increases in Australian electricity and gas prices as an input to business relative to the ABS’s Producer Price Index (PPI). It can be clearly seen that both electricity and gas have increased by significantly more than producer prices. This has been particularly evident since 2009, with electricity and gas prices increasing by 60 per cent and 44 per cent respectively from September 2009 to September 2013. Over the same period domestic and imported producer prices have increased by only 11 per cent each.

Figure 1: Electricity Prices, Gas Prices and Producer Prices - Australia



Source: ABS

As mentioned above, such large energy price increases have had negative impacts on the business community. Accordingly, they are seen by business as among their major concerns. For example, in an ACCI survey of members in May 2013, 82 per cent of respondents reported that large increases in electricity prices had reduced their profitability.

It is inevitable that such large energy price increases have eroded Australia’s industrial competitiveness, weighed down productivity growth and contributed significantly to the high cost environment now being experienced by Australian business.⁶

⁶ An international survey of business costs by KPMG in 2012 found that the cost of electricity in Australia was the highest of 14 countries included and that Australia had the second highest overall costs of the nine mature economies included in the survey. See KPMG, *Competitive Alternatives:*



In the case of the electricity price increases, it is also clear that these have been due overwhelmingly to three causes – network price increases, the carbon tax and other ‘green’ subsidies. In the case of network prices, it is of major concern to ACCI that many of the higher charges seen by consumers are not justified. For example, the Chairman of the Australian Energy Regulator (AER) has said that the regulatory framework had essentially created to a situation in which the networks received excessive amounts of capex and opex.⁷

Recently, the Productivity Commission concluded that:

“Spiralling network costs in most states are the main contributor to these [electricity price] increases, partly driven by inefficiencies in the industry and flaws in the regulatory environment.”⁸

Whilst it is welcome that governments have begun to address these issues, they continue to concern ACCI because:

- Of the slow response from governments to the rapid price increases, which took some 3-4 years to commence, by which time considerable damage had already been done and angst had built up in the community (households and businesses). This points to an energy policy process which is too reactive, rather than proactive, and slow to respond.
- Price increases from decisions taken some years ago will continue to work their way through the system and therefore continue to impact on energy prices for some time – until towards the end of this decade in some cases. For example, network price increases stemming from the AER’s existing determinations will continue to impact on network prices until 2018-19 and some impacts will continue until the end of the following regulatory period (2023-24). In the case of renewable energy subsidies, these will continue to impose costs on energy users for many years to come, despite the lack of any compelling evidence as to the benefits they provide. This problem has received very little recognition from governments, notwithstanding the fact that some of these increases reflect poor decision making and/or poor policy/regulatory settings. Energy consumers, it seems, will continue to pay for these problems and flaws for years to come.

KPMG’s Guide to International Business Location Costs, 2012 Edition at http://www.competitivealternatives.com/reports/2012_compalt_report_vol1_en.pdf.

⁷ See Reeves, A., ‘Finding the balance—the rules, prices and network investment’, Speech, 20 June 2011, p. 4 at

<http://www.aer.gov.au/sites/default/files/AER%20Chairman%20Address%20to%20EUA%2020%20June%202011.pdf>.

⁸ Productivity Commission, Electricity Network Regulatory Frameworks, Inquiry Report, No. 62, Volume 1, 9 April 2013, p. 2.



- A number of the policies and regulatory settings which have played a major role in the price increases continue to exist. For example, the RET remains in place and drive up electricity prices (pending the outcome of the scheduled government review) and the Productivity Commission, in its recent network regulation inquiry, expressed the view that the reforms to network regulation to date had only partly addressed existing flaws. The forces driving gas prices higher and their impacts on domestic consumers have only recently begun to be examined by governments and it is too early to say with any confidence whether improved outcomes for consumers will emerge.
- It is important that future policy settings avoid price shocks (and their ongoing impact on energy consumers).

The EWP must ensure that future policy settings are such that energy policy and regulation:

- Never again permit large and unjustified price increases and then allow them to remain unchecked for significant periods of time.
- Ensure that poor policy or regulatory decisions are corrected more quickly and do not linger.
- Ensure that poor policies and regulatory settings are avoided in the first place.

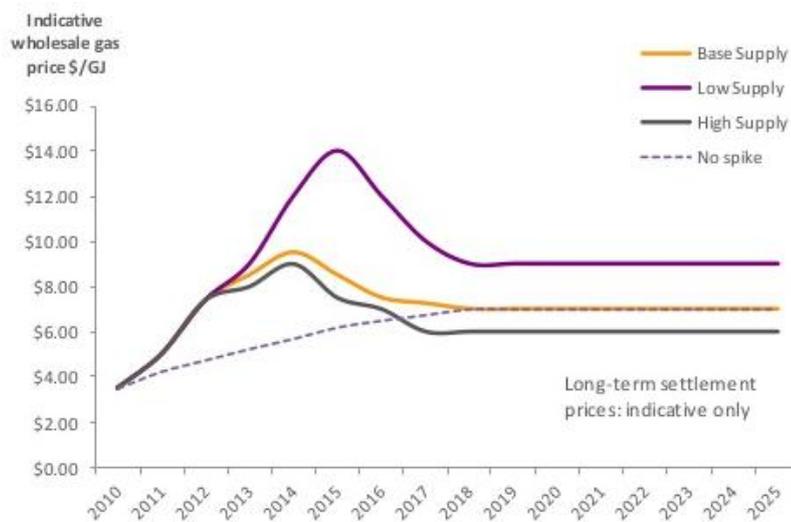
2.4 Gas Supply, Prices and Market Developments

The EWP Issues Paper discusses some of the major recent developments in the Australian gas market and the increasing attractiveness of using Australia's considerable Coal Seam Gas (CSG) resources to produce LNG for export, especially to energy-hungry Asian markets. ACCI recognises the benefits that can flow to Australia from developing this export market, including additional investment, jobs, regional development, export revenue, taxation revenue and contributing to a stronger economy. However, ACCI notes that these benefits are not guaranteed and will depend on the attractiveness of investing in Australia *vis-à-vis* elsewhere, competition from gas elsewhere in the world, a range of developments in international gas markets and continued economic growth in importing countries.

We also note that the development of LNG exports from Australia, both on the eastern seaboard and in northern Australia, is placing significant pressure on domestic gas markets, including for industrial and commercial gas users. In

particular, domestic users are currently experiencing increased difficulties in securing long term supplies of gas and are facing significant increases in gas prices. As a result, gas prices have started to rise markedly in all eastern States and are predicted to double or even triple as LNG export facilities in southern Queensland ramp up. This can be seen in Figure 2 below.

Figure 2: Forecast of Domestic Gas Prices



Source: Balfe, P., ACIL Allens, Gas Supply and Demand Outlook for Eastern Australia, East Coast Gas Outlook Conference, Sydney, 21 October 2013.

This issue is of major concern to gas users who could well see the competitiveness of their plants diminish or their viability threatened. Investment in new facilities could also diminish, especially industrial and minerals processing facilities. Moreover, as gas prices rise, their use in electricity generation will become more expensive with the result that electricity prices will come under more pressure and gas generation, a likely source of reductions in Australia’s carbon emissions, will be replaced by other technologies (e.g. higher emissions coal or low emissions but expensive renewables).

ACCI sees this as one of the most important issues for the future of energy in Australia and an issue that needs to be addressed in the EWP. Whilst the EWP may not be the place for very detailed policies to be set out, it certainly should lay out a strategy to address the kinds of issues which LNG exports present, both in terms of gas for export and domestic use.

ACCI is concerned that, until comparatively recently, too much focus has been put on export markets without sufficient attention being paid to domestic gas users. This has only served to increase the angst within gas intensive industries. A more

balanced approach is needed in the EWP, acknowledging that the Federal and a number of State governments have recently been working towards addressing some of the issues (including co-operatively). We welcome this and note that much remains to be done.

ACCI wishes to make clear that it does not support the use of domestic reservation policies for gas, or setting domestic gas prices. Reservation of gas for domestic use is poor public policy and could well:

- Not place any significant downward pressure on gas prices;
- Have negative impacts on investment in additional gas supplies;
- Curtail the ability to maximise revenues from the resources boom; and
- Acting as a disincentive to the development of additional gas reserves, including for domestic use.

There is no economic justification for offering a form of protection, i.e. domestic gas reservation, to one part of the economy at the expense of the economy as a whole. Such an approach would limit the ability of Australian gas producers to take advantage of lucrative export markets and distort domestic energy consumption.

ACCI would rather see an approach to assisting domestic gas users that focused on stimulating gas supply, and transparent, open and competitive gas markets. This should target areas including:

- Policies that will act as a stimulus to developing additional gas supplies, including for domestic use and that eschew the hoarding of gas.
- Ensuring that the domestic gas supply chain (upstream, haulage and retail) is as competitive as possible and remains so.
- Supporting the removal of infrastructure bottlenecks (e.g., pipeline constraints)
- The ACCC being tougher on joint marketing of gas.⁹
- Overcoming the lack of price transparency in Australia's gas markets.
- Facilitating the development of richer trading opportunities for gas, including participation in these by users (e.g., more and larger trading hubs).
- Ensuring that users understand and have opportunity to participate in more transparent and sophisticated gas markets, especially SMEs, who could otherwise face significant challenges.

⁹ This is an issue that could also usefully be addressed in the Government's review of competition policy.

2.5 Asset Ownership

While major gas assets in Australia are all in private ownership, there remain substantial parts of the electricity industry which remain in government ownership. This is notwithstanding that public ownership does not sit comfortably with the efficient supply of energy and incentive based regulation. Further movement to private ownership has occurred in the intervening period but it has been painfully slow.

Currently public ownership of electricity assets includes the following:

- All electricity transmission and distribution network assets in New South Wales (NSW), Queensland, Western Australia (WA), Tasmania and the Northern Territory (NT), as well as part of the Australian Capital Territory's (ACT) network. Overall, 74 per cent of network assets remain in public ownership.
- Major generation assets in NSW¹⁰, Queensland and WA, with near complete government ownership in Tasmania and the Northern Territory. The Snowy Mountains generation assets are also jointly owned by the Federal, NSW and Victorian governments. Overall, nearly 16,000 MW of generation capacity in the NEM remains in government hands, or about one-third of the total.
- Retailing is almost totally in public ownership in Tasmania and the Northern Territory, while major retailing operations remain in public ownership in Queensland, WA and the ACT.

The great bulk of these assets are in State (or Territory) government ownership and therefore the matter of their transfer to the private sector is not directly an issue for the Commonwealth. However, ACCI believes that the Commonwealth needs to show leadership on this important issue and work with the second tier of government to ensure that reforms are forthcoming. Among the levers that the Federal Government has at its disposal are:

- Its authority as the national government with stewardship of the nation's economy. Electricity is important to the nation's economy.
- Its ability to offer State and Territory governments inducements to sell their electricity assets. For example, under National Competition Policy the States/Territories were given financial payments for undertaking a range of reforms and more recently the prospect of the Commonwealth providing

¹⁰ New South Wales is currently in the process of selling Macquarie Generation.

payments to the States/Territories as an incentive for the sale of State assets has been raised, with the proceeds to be used to fund infrastructure.

- Its ability to use forums such as the Council of Australian Governments (COAG) and Standing Council on Energy and Resources (SCER) to obtain joint agreement on needed reforms.
- Sale of its share of the Snowy Mountains scheme as a demonstration of its leadership on this matter.

Turning first to generation and retailing, ACCI can see no valid economic or commercial reason why these assets should remain in public ownership two decades after the first pro-competitive market reforms were introduced into our electricity markets.¹¹ Indeed, there are compelling reasons why private ownership of remaining publicly-owned generation and retail assets should be pursued as a matter of priority, including:

- Private ownership is more appropriate to the competitive markets and retail choice that now exists in electricity in most parts of Australia.
- Electricity markets are highly risky being, for example, characterised by highly volatile prices and the risk management skills required to operate in them are more suited to the private sector.
- A significant period of time has now passed since the introduction of competitive market reforms in electricity and it is clear that private ownership can successfully operate in the market without the need for government ownership. The rules and regulations that exist provide adequate ‘insurance’. There is no factual evidence that publicly owned electricity assets are any less likely to misuse their market power than private owners, but there is some evidence to the contrary.¹²
- Owning electricity assets ties up public funds and diverts them from alternative (higher public value and more appropriate) uses.
- The significant revenue raised from selling electricity assets can be used to boost other government services, retire debt or fund enhanced public infrastructure. This includes funding community service obligations for areas governments wish to support.

Regarding electricity networks, issues such as the ‘essential’ and monopoly nature of these assets have been mentioned as reasons for continuing public ownership.

¹¹ In Western Australia and Tasmania the reforms first commenced around a decade ago.

¹² According to *The Australian Financial Review* (in February 2012), the former CEO of the large NSW Government owned generator Macquarie Generation, Mr. Russell Skelton, is reported to have said that with the introduction of the carbon tax the generator would aim to push up market prices by withholding a proportion of its capacity to restore profitability. He also made the admission that, “we have done it in the past to respond to varying market circumstances.”

However, ACCI believes that, similar to generation and retailing, the case for continuing public ownership of networks is weak:

- The ‘essential’ nature of electricity networks can be adequately handled through regulations and licensing conditions covering safety, reliability, planning and the like. Public ownership is no longer necessary for this, as demonstrated in Victoria, South Australia (SA) and in many overseas countries.
- Likewise, the natural monopoly characteristic of electricity networks is capable of being kept in check through economic regulation and governments no longer need to rely on public ownership to do this. This has been done successfully in Victoria, SA and overseas, especially through the application of incentive-based regulation, with no evidence that higher prices have been charged, or service weakened under private ownership.¹³ Indeed, incentive-based regulation as practiced in Australia was designed for application to privately-owned assets and there is now evidence that the different incentives facing publicly-owned networks distort the application of incentive-based regulation in a way that penalises consumers.
- Whilst it is true that publicly-owned electricity networks have provided a steady and substantial revenue stream to State governments, who otherwise face revenue challenges, ACCI does not believe that this provides an adequate justification for continuing public ownership. First, the revenue collected is often a disguised form of taxation that is distortionary, inefficient and opaque. Second, it increases electricity prices for consumers, including businesses. Third, it increases incentives for State-owned networks to inflate their regulatory proposals and undermines the efficiency improvements inherent in incentive regulation. Fourth, it distorts the competitive neutrality principal in a way that was never intended. Finally, co-operative reform effort by the Federal and jurisdictional governments should work towards more efficient means of taxation and overcoming any net revenue deficit.

The recent Productivity Commission inquiry into network regulation also examined the matter of asset ownership and concluded that:

“While governments have a legitimate role in owning and operating many services in Australia, the rationale for state-ownership of electricity network businesses no longer holds. This reflects the development of sophisticated incentive regulations that function best when the regulated businesses have strong cost-minimising and profit motives. ...

¹³ On the contrary, there is evidence that consumers in jurisdictions where publicly-owned network assets exist have seen larger price increases and poorer levels of service. For example, this has been the case in New South Wales and Queensland over the past decade.

There are strong arguments for privatisation of these businesses. There is no evidence that the productivity, reliability, quality or cost performance of private sector electricity network businesses is worse than their public sector equivalents. To the contrary, the evidence in Australia and internationally suggests that such private sector enterprises are more efficient. It should also be emphasised that privatisation is not de-regulation. In fact, there is a symbiosis between regulation and privatisation. Strong regulation is needed to achieve the private provision of secure, reliable and appropriately priced electricity network services. And privatisation strengthens the effectiveness of incentive regulation.”¹⁴

Considering all of the above, ACCI strongly supports the sale of remaining government-owned electricity assets to the private sector, including the transmission and distribution networks. Indeed, it is the latter where most of the benefits from privatisation to consumers will follow given the large share of network costs in electricity bills and the fact that network prices (especially in States with public-ownership) have been a large contributor of the electricity price shocks of recent years. Small business would be a significant beneficiary given the size of their electricity bills, the high network charges they pay and the benefits they would derive from the resultant more competitive and efficient electricity supply industry. We support private ownership, even though network regulation remains less than perfect (see section 2.6), given that consumers in States with privately-owned networks have seen smaller price increases with better service.

We therefore welcome the inclusion of this matter in the EWP Issues Paper and the Government’s stated support for privatisation initiatives. We urge that privatisation of remaining publicly-owned electricity assets be supported in the EWP.

Whilst we do not support continuing ownership of electricity networks, any delay in the sale of these assets should be accompanied by reforms that provide for clearer and more commercial governance arrangements covering State-owned networks along the lines outlined in the Productivity Commission recent inquiry report. However, ACCI is firmly of the view that this is a far inferior approach, will prove difficult to implement/monitor and will not benefit consumers significantly.

2.6 Network Regulation

¹⁴ Productivity Commission, Electricity Network Regulatory Frameworks, Inquiry Report, No. 62, Volume 1, 9 April 2013, p 23 & 25.

Energy networks make a significant contribution to ensuring the reliability of energy supplies, and transmission and distribution charges combined typically account for around half of the delivered costs of electricity and gas. These simple facts underline the importance of network services to consumers, including business consumers and SME's. As all electricity networks, all gas distribution networks and many gas transmission pipelines are monopolies, they need to be regulated to avoid overcharging and/or over or under servicing. Incentive-based regulation, whereby the networks are provided with regulatory incentives to lower their costs, or otherwise become more efficient and share these gains with consumers over time, whilst at the same time not lowering their service levels, have been a key part of energy reform. ACCI recognises the benefits of this approach to consumers and therefore supports the application of an effective incentive based regulatory framework to energy networks. We also support the inclusion of network regulation as a key plank of the EWP.

However, the application of regulation to energy networks has not always been effective and this is a major reason for the large increases in network prices seen since 2009. In particular, it is no co-incidence that the application of new rules for network regulation in the move to a national regime (and their application by the AER) resulted in a spiralling growth in network capex, significantly higher opex and inflated rates of return (especially for publicly-owned networks). This involved some major changes in approach and a strong emphasis on encouraging network investment. However, much of the regulatory framework, its application and the toolkits used were simply not up to the task of keeping these monopolies in check. The Productivity Commission in its recent report on network regulation described the resulting regime as having “flaws” and being “a work in progress”.

We note and welcome the fact that the COAG and SCER have now taken a stronger interest in network regulation and supported reform of a number of key aspects of regulation. The Australian Energy Markets Commission (AEMC) and the AER have also supported reform, as have consumers. To date, this has resulted in a number of changes to the rules that govern network regulation – changes that we support – and also the development of numerous associated guidelines by the AER. It is to be hoped that this will lead to better outcomes for consumers in the next round of AER regulatory resets, the first of which are about to commence.

Nevertheless, we share the Productivity Commission's view that:

“These flaws require a fundamental nationally and consumer-focused package of reforms that removes the interlinked regulatory barriers to the efficiency of electricity networks. Reforms made in late 2012, including improvements to the

*regulatory rules, better resourcing of the regulator and greater representation of consumers, have only partly addressed these flaws.*¹⁵

In particular, we draw attention to the following areas of network regulation that still require reform, where the outcomes of reviews have not yet been implemented, or where decisions fall short of what is needed to address the concerns of the business community:

- As mentioned earlier, the application of the existing regulatory regime to publicly-owned networks is problematic and we are not convinced that, even with the changes made to date, it will prove effective in this area. We share the Productivity Commission's view that the preferred way to tackle this problem is to transfer ownership of these networks to private hands but, if this is not done reasonably quickly, there may need to be changes to the regime to reflect differences in ownership. Key areas include the ability of publicly owned networks to be provided with a regulated cost of debt and equity that is well in excess of actual costs, and notwithstanding changes made by the AEMC and AER, incentives they still have to propose capex and opex that is inefficient or inflates their asset base.
- Benchmarking of future capex and opex proposals by the AER has been strengthened but we are yet to see its quality and how effectively it will be used to help determine the AER's decisions. Public scrutiny of the AER's application of benchmarking and monitoring by SCER will be important.
- The recommendations of the review of the merits review appeals mechanism (Yarrow Review), which reported in late 2012 and recommended substantial reforms to the appeals system that benefit consumers, are not implemented.
- There has been progress towards, but as yet no implementation of, a national approach to setting reliability standards for distribution networks. These standards can be a significant driver of network expenditure and the Productivity Commission, in its network regulation inquiry report, commented that standards should be based on consumers' willingness to pay rather than prescriptive standards (sometimes under political influence). It estimated savings of \$1.1 billion in capex over five years in NSW.
- The AER has made some changes that it believes will improve the incentives on networks to propose more realistic demand forecasts.¹⁶ However, it remains to be seen whether the AER's incentives will be strong enough to achieve its objective, especially for publicly-owned networks.
- Incentives for networks to make greater use of demand management and embedded generation, for example, to defer expensive network

¹⁵ Ibid, p. 2.

¹⁶ Network growth (underlying and peak demand) is a key expenditure driver and can account for around a third of capex. In the past, networks have almost invariably forecast growth significantly above actual levels. This resulted in higher capex than necessary and higher charges.

augmentations, remain weak and ineffective. The AEMC and AER are working on these issues but progress has been slowed down by the lack of a reference to the AEMC from SCER.

- Somewhat related to this, networks seldom make use of tariffs (or incentives) for customers to alter their consumption patterns to reflect peak network use, which is costly. This is another area where progress has been slow.

In addition, a number of the reforms already underway have yet to be applied by the AER and the quality of its implementation, as well as its focus on delivering long term benefits to consumers, will be crucial to their success.

We recommend that the gaps in network regulation and other points raised above form part of the EWP strategy to ensure that these areas are addressed in a timely way and that monitoring of the effectiveness of recent reforms be undertaken by SCER.

2.7 Declining Growth in Energy Demand

In recent years there has been a decline in energy demand growth, with underlying demand declining absolutely and peak demand displaying much lower growth. Moreover, the Australian Energy Market Operator (AEMO) is forecasting a continuation of low growth until the end of this decade, which if realised, would mean more than a decade of sluggish growth. This follows a long period of strong growth in energy demand. Typically the following reasons are advanced for this shift:

- Rising energy prices.
- Closures or declining operations in manufacturing.
- Improvements in energy efficiency, driven at least partly by higher costs (including for energy) and (perhaps) by the introduction of government energy efficiency programs.
- Significant installations of roof-top solar.

Given the likely prolonged nature of this change in trend growth, it would be relevant for the EWP to seek to understand its reasons better and address how such a fundamental shift might affect policy (and regulatory) settings, bearing in mind that such settings were put in place during a period of sustained growth in demand.

ACCI raises the following matters as worth considering in the EWP process:

- How likely is it that the change in demand growth will be long term?

- What are its economic consequences and how should they be addressed?
- If excess capacity is sustained, how will this affect the market and prices?
- How will the climate for new investment be affected?
- What impact will policies such as the Renewable Energy Target (RET) have?
- If the energy market sees declining or sluggish growth for a considerable period how will retailers be affected?
- What are the implications of a sustained period of declining energy demand for consumers and the broader economy?
- What are the consequences for network regulation, especially given the importance of accurate demand forecasts to regulated revenue allowances and given that networks are provided with maximum allowable revenues for the duration of a regulatory period regardless of actual demand?
- What are the implications for the use of networks? For example, the possibility of changes to tariff structures has been suggested to allow networks to collect more revenue from fixed charges. ACCI does not support this given that it will penalise grid-connected consumers, including SMEs and may well contribute to more customers leaving the grid.
- What, if any, changes need to be made to policy settings to account for the above?

2.8 Retail Market Issues

The performance and competitiveness of the energy retail sector is important to energy consumers as this is where they mostly interact with the energy supply chain. The injection of competition into energy retail markets and offering consumers a choice of retailer have been important reforms. Where retail competition has taken hold, where there are a range of retailers to choose from and where choice has been extended to all customers (i.e., full retail competition, or FRC) consumers have been able to benefit from these reforms in terms of being offered a choice of who they buy their electricity or gas from, having access to competitive prices, being offered discounted prices and seeing some service innovation. ACCI supports these reforms as business consumers, including SMEs, have benefitted from them.

However, there are a number of outstanding issues in the retail sector which we believe should be considered in developing the EWP. These include:

- Retail markets in NSW, Victoria, Queensland and SA are dominated by three major players – AGL, EnergyAustralia and Origin Energy.¹⁷ In some of these States a range of other retailers also operate and help to improve

¹⁷ In most States the 'big three' have in excess of an 80 per cent share of the household market.

competition, although their share is small and their influence tends to be muted by the dominance of the three largest, by vertical integration (see separate point below) and by the risk of being taken over if they become ‘too successful’.^{18 19}

- There generally seems to be less competition in gas retailing than in electricity. The same players tend to dominate but there is a dominant duopoly in some States and less competition beneath them.²⁰ Dual fuel competition is provided by some retailers. The reasons for less retail competition in gas may have to do with the smaller size of the gas market, or with a lack of an open gas market.
- FRC including providing small business with a choice of retailer, has not yet been enacted in parts of Queensland (outside the south-east corner of the state), in WA, Tasmania and the NT. Jurisdictions may argue that this is because competition is weak, but there is a ‘chicken and egg’ dilemma which may be preventing customers from gaining access to the benefits of choice.
- Retail price regulation for small customers, including small business, continues to exist in NSW, Queensland, WA, Tasmania, the ACT and NT.²¹ It is doubtful that retail price regulation serves much purpose in jurisdictions where there is retail competition as regulated prices do not appear to have had any discernible impact in keeping prices below competitive ones – quite the contrary as they have included ‘head room’ supposedly to encourage new entrants – and have served as a upper benchmark for discounting (perhaps even limiting the extent of discounting).²²
- A lack of generation competition in some jurisdictions is preventing customers, even those who have a choice of retailer, from gaining access to competitive prices. This may well also be holding back the introduction of FRC in relevant jurisdictions. Retailers may well be reluctant to enter a market, especially a relatively small one, unless they can market to the entire customer base, and unless they can gain access to competitive generation to enable them to hedge their positions effectively. This issue impacts on small business. Generation competition is weak in Tasmania, the NT and to some extent also in SA and WA.
- The past decade has seen a significant shift in NEM retail markets compared to the early years of reform, with the emergence of vertically integrated retailers and generators, the so-called ‘gentailers’. The trigger for this was

¹⁸ AGL has recently taken over Australian Power and Gas after the latter acquired a significant number of retail customers.

¹⁹ The Essential Services Commission (Victoria) has recently analysed retail electricity prices in Victoria and found evidence that retail prices and retail margins had increased significantly since price deregulation in 2009.

²⁰ The market share of the ‘big three’ retailers in gas is typically 90 per cent or higher. There is a duopoly in Queensland and Tasmania and a near monopoly in the ACT.

²¹ Victoria and SA do not regulate retail prices but do have deemed standing offer prices.

²² In Victoria and SA the deemed standing offer price serves a similar role.

Federal Court action, with the ACCC unsuccessfully opposing AGL's bid to acquire the large Loy Yang A (LYA) generator in Victoria²³ and subsequently acquiring the Torrens Island Power Station in SA from TRUenergy. The Court ruled that the acquisition of LYA would not substantially lessen competition as it had defined the market as most of NEM rather than just Victoria. Some experts have queried this ruling, noting that links between NEM regions are not unconstrained and that inter-regional hedging is not perfect. These two acquisitions also ensured that AGL became the dominant retailer and generator in SA and a substantial one in Victoria. There is some evidence that it has successfully exploited its market power from time-to-time.²⁴ Although the ACCC subsequently approved AGL's acquisition of all of LGA, a decision presumably influenced by the Federal Court's ruling, its Chairman indicated that it would look closely at any subsequent major acquisitions involving further vertical integration and would not guarantee their approval. Currently, the ACCC is involved in deciding whether it should approve a proposal by AGL to acquire Macquarie Generation, a large generator in NSW. It recently expressed some concerns about possible impacts on competition in NSW, Victoria and SA.²⁵ Whilst vertical integration may provide efficiencies and allow retailers and generators to hedge internally, it could also impose costs on consumers such as less market transparency, acting as a barrier to new entry into retailing and being a cause of market power. The impact of vertical integration of retailers and generators is far from clear and needs to be assessed more closely from a policy standpoint.

The EWP should include an assessment of retail market issues, including those raised above and develop a strategic framework to incorporate these into future policy decisions. This strategy should include an assessment of, and ongoing monitoring of, the health of competition in energy retailing. As the States and Territories have a significant say in issues affecting the retail (and generation sectors), the Commonwealth should work co-operatively with them and use its position of national leadership to ensure these issues are addressed.

²³ AGL actually acquired 32.5% of LYA (its joint venture partners were not active participants in the NEM) and agreed to a range of other court enforceable undertakings intended to curb its influence over LYA's generation capacity. However, there have been questions raised about how effective these undertakings were in doing this.

²⁴ For example, the AER has raised concerns that AGL was able to significantly increase electricity prices in SA between 2007 and 2010 by withholding capacity.

²⁵ ACCC Media Release, 'ACCC Calls for Comment on AGL's Proposed Acquisition of Macquarie Generation', 6 February 2014.

2.9 Generation Issues

Competition in electricity generation is critical to competition in retail as generation provides the physical power, which retailers on-sell and the hedging ability that retailers must have to manage the risks inherent in electricity markets. A lack of competition in generation will hinder retail competition and the benefits which consumers obtain from being able to access competitive electricity supply will diminish. Tasmania provides a case in point, with the dominant position of Hydro Tasmania being a key factor in the unwillingness of mainland retailers to enter the Tasmanian market. By contrast, the Victorian reforms, with their emphasis on vertical and horizontal separation of generation and retail facilitated significant competition at both these levels. An important issue for the EWP is therefore to incorporate a strategic approach that facilitates and encourages healthy competition in generation.

Some of the issues relevant to generation and the links between generation and retail competition have already been canvassed in section 2.8 which discussed retail issues and section 3.8 on cleaner energy.

2.10 Energy Market Governance and Institutions

As electricity and gas markets moved away from State/Territory systems, government ownership and vertical integration more towards the creation of markets, national arrangements, disaggregation and a mix of government and private ownership, governance and institutional arrangements have emerged to regulate and administer the new arrangements. In the NEM, the key regulatory instruments are the National Electricity and Gas Laws and their associated Rules, with similar arrangements applying in south-west WA. The key agencies are:

- The AEMC, which is the rule making, rule change and SCER advisory body;
- The AER is the economic regulator (e.g., network pricing, retail markets and monitoring and surveillance of the wholesale market).
- AEMO is the spot market operator and responsible for NEM generation and transmission planning.
- Six NEM based jurisdictional regulators have some residual retail and green market functions.

- Economic regulators in WA and the NT and a market operator in WA.
- The ACCC applies general competition and consumer law to energy markets.²⁶

These are substantial and important arrangements which can have a significant impact on how well the markets operate. They also come at a cost, with the AEMC, AER and AEMO alone costing around \$380 million per annum to run.

It is important that the EWP recognise the importance of governance and institutional arrangements and we welcome the inclusion of this in the Issues Paper. In particular, the EWP should ensure that the arrangements work efficiently and cost effectively, and deliver benefits to consumers (and market participants). It should also ensure that they continue to do so by means such as:

- Regular reporting and accountability to ministers through the SCER
- Independent, public and transparent operations
- Effective budget control
- Independent and merit based boards
- Formal (independent and public) reviews of the agencies from time-to-time²⁷

The AER has been the subject of some criticism in recent years for failing to prevent the very large increases in network charges referred to earlier and the AEMC has also been criticised for slowness in completing some reviews. The Productivity Commission network regulation report examined some of these questions and made a number of recommendations aimed at improving the performance of both bodies. To our knowledge only some of these recommendations have been addressed to date. The EWP should ensure that the effectiveness of the NEM governance and institutional frameworks is maintained as an integral part of energy policy.

2.11 Reducing the Burden of Energy Regulation

Energy markets are governed by a range of complex and detailed regulation.²⁸ To some extent this may be justifiable as they are used for complex purposes, e.g., economic regulation of network pricing, operations of the electricity spot market.

²⁶ The Government will be establishing a separate review of competition policy and this should consider its impacts on energy markets. However, some of our earlier comments on the energy retail and generation markets are important in the context of competition policy.

²⁷ We note and welcome that the AER, AEMO and AEMC will all be reviewed in 2014.

²⁸ The National Electricity and Gas Rules alone run to some 1,500 and 500 pages respectively.



However, the Government has also put a high priority on reducing the burden of regulation on business and ensuring that regulation is necessary and effective, which ACCI strongly supports. Given this, it would be worthwhile the EWP including a component which ensured that this is the case in energy. Naturally, the Commonwealth would need to consult States/Territories given that jurisdictions share responsibilities, but many States/Territories have supported the need for regulatory reform including through COAG's regulatory reform agenda.

The EWP could support the following regulatory reform initiatives in energy:

- A review of energy market regulation by the Productivity Commission.
- Regulatory Impact Statements to apply to all changes to, or new, regulations.
- Directing the AEMC, AER and AEMO to consider the impacts of regulations on business and the broader community.
- The SCER, AEMC, AER and AEMO have a role to effectively communicate how regulation works and their regulatory decisions to consumers.
- More people with business experience should be appointed to the boards of these bodies.

2.12 Consumer Participation and Advocacy

Effective and well-resourced consumer participation and advocacy is important to the efficient functioning of energy markets and their objectives to ensure long term benefits for consumers. However, this has not always been the case in the past. ACCI believes that, had there been more effective consumer participation, the large increases in network charges would have been less likely (or at least would have come under more scrutiny). The community fallout could also have been avoided.

Nevertheless, COAG and SCER have both recognised the important role which consumer participation must play in energy markets and are in the process of putting in place new arrangements. ACCI supports the need for effective consumer participation and advocacy but will wait and see how well the new arrangements work. At this stage, we have some concerns:

- The new National Energy Consumer Body that is being set up must not be allowed to become unrepresentative and bureaucratic. It needs to be effective but also lean and efficient. It needs to have close ties to and work with consumers. We are unsure how it can represent a broad church of consumers, including small business, given the diversity in interests that will emerge on many issues?
- The new body must not be a substitute for, or prevent, funding for direct

representation by bodies representing consumers. These bodies have closer access to consumers and therefore the legitimacy to represent them and, in our view, are likely to do so effectively if funded effectively. Direct funding of bodies representing consumers must continue to be an important part of the arrangements.

- As far as small business is concerned this is even more important as participation in advocacy is unlikely unless funding is provided. This has certainly been the case in the past. More recently, small business has taken a greater role in energy advocacy as it has been able to access funding provided by the Consumer Advocacy Panel. ACCI has been one of the bodies involved. Now that a promising start has been made, governments should not ‘throw the baby out with the bath water’.

Small business should also be encouraged (and if necessary assisted) to become a more active participant in various forums such as the new National Energy Consumer Body, the AER’s Consumer Challenge Panel and various standing and *ad hoc* energy market committees.

The EWP should ensure that consumer participation and advocacy, including by small business, are an integral part of energy policy going forward and reflect ACCI’s comments above.

3 CLEANER ENERGY ISSUES

This section discusses a range of issues associated with policies oriented towards cleaner energy and more efficient use of energy as they relate to the EWP. These are important to business, including SMEs, as they impose costs on them by increasing the costs of energy. It is important that the benefits of these policies outweigh their costs. In developing this section of the submission we have taken into account that the Government has a number of other processes underway which relate to cleaner energy including the abolition of the carbon tax, the implementation of its Emission Reduction Fund and its forthcoming RET review.

3.1 Abolition of the Carbon Tax

ACCI supports the Government's policy of abolishing the carbon tax and we have called on all parties not to oppose the legislation to do this. We can see no valid reason why Australia should put a substantial price on carbon when the rest of the world either has no such price or a far lower one. The carbon tax has significantly increased electricity and gas prices and costs to business. The EWP needs to recognise this. ACCI is responding in more detail in its submissions on abolition of the carbon tax.

3.2 Emission Reduction Fund

The Government intends to replace the carbon tax with an Emission Reduction Fund, the central element of which will be a scheme for the government to buy carbon credits from business at the lowest possible cost. Details of this scheme are currently being worked out and ACCI will develop its position as this happens.

The EWP will need to take account of how the scheme impacts on energy policy.

3.3 Renewable Energy Target

ACCI supports abolition of the Renewable Energy Target (RET) or, failing that, its

significant winding back. Next to network charges and the carbon tax, the RET has been the most significant contributor to higher electricity prices in recent years. The RET increases electricity prices or otherwise imposes significant costs on energy users by:

- Imposing a quota on renewable energy, the costs of which are paid for by energy retailers who pass them on to energy consumers.
- Although the scheme may currently be serving to lower wholesale prices in some parts of the NEM, especially SA, it has been demonstrated by regulatory authorities that its net impact has been to increase electricity prices for consumers and, in the longer term, as the target increases, ACCI expects its cost impact to increase further.
- Small users cannot avoid the costs of the scheme and do not have access to the compensation arrangements that apply to some large energy users.
- The RET also imposes indirect costs, including the need to augment transmission and distribution networks to connect renewable generation²⁹, the need for additional thermal backup power to compensate for the intermittent nature of some renewables and more complex system planning arrangements (needed to accommodate such power).
- Productivity Commission analysis of the scheme also supports the view that it is a costly way to reduce emissions.
- Various land use, planning, noise and health issues have also been raised in relation to the RET and should be thoroughly examined.

ACCI intends to make separate and more detailed submissions to the forthcoming RET review and will develop its position accordingly. However, at this point, ACCI supports the EWP taking into account the costs of the RET and developing energy policies which recognise this. Clearly, the outcome of the RET review will require separate government decisions about the future of the scheme and this may be expected to have an impact on the EWP.

3.4 State Government Solar Energy Subsidies

Until recently State and Territory governments provided generous incentives for households (and in some cases businesses) to install photovoltaic cells or solar hot water. Over the past few years most of these schemes have been wound up or

²⁹ For example, the AER has recently approved a cost pass through of \$84 million for 2012/13 for the Queensland distributor Ergon Energy due to a need to augment its network for solar installations under the SRES and the State Government's solar bonus scheme. This will cause higher network charges for Ergon customers. See <http://www.aer.gov.au/node/23480>.

wound back and they now offer smaller incentives.³⁰ State and Territory governments have recognised that the generosity of the previous schemes overheated demand, blew out scheme costs and contributed to rising electricity prices. Consumers without eligible solar installations (including poorer parts of the community) also subsidised those who received the rebates. Moreover, State/Territory schemes duplicate the Federal Small-scale Renewable Energy Subsidy (SRES), which is part of the RET. The impact of the schemes on lowering carbon emissions is also limited and they do so at high cost.

ACCI supports the steps that State and Territory governments have taken in limiting their solar subsidies. However, it queries whether the schemes are needed at all given their continuing costs, impact in increasing electricity prices, their regressive nature, the differential subsidies they provide, their duplication of the SRES and their limited impact in reducing carbon emissions. The continuation of the schemes is a matter for the States and Territories, but their continued operation has national impacts, including on energy policy and overlaps with Federal schemes, especially the SRES. It is therefore legitimate for the EWP to consider the worth of their continued operation and place within a national energy policy.

3.5 Energy Efficiency Schemes

The Federal and some State governments currently operate a range of energy efficiency schemes intended to encourage businesses and households to save on their energy use. Whilst the main objective of such schemes should be to use energy resources more efficiently, many also have a specific objective to reduce carbon emissions. ACCI does not believe that such schemes should have the reduction of carbon emissions as their primary policy rationale (though this may be a by-product of energy efficiency initiatives). Reductions in carbon emissions should be addressed directly through schemes structured for this purpose and they should seek the lowest costs means of doing so. To the extent the energy efficiency schemes exist they should be restructured to reflect their energy efficiency purpose and they should not duplicate one another or carbon reduction measures.

The main existing schemes which impact on business are:

- The Federal Energy Efficiency Opportunities (EEO) program, which applies only to large users and requires them to develop plans to save energy.

³⁰ The solar bonus schemes in Victoria, Queensland, Western Australia, Tasmania and the ACT have been wound back. Those in NSW and SA have been wound up and replaced with lower retailer provided rebates based on benchmark rates.

- The NSW Energy Savings Scheme (ESS), which obliges energy retailers to create certificates to meet an energy efficiency target. The costs of these tradable certificates are passed on to consumers in their energy bills.
- The Victorian Energy Efficiency Target (VEET), which is similar to the ESS.
- SA's Residential Energy Efficiency Scheme (REES), which is also similar to the ESS but only applies to households, though extension to business is contemplated.
- Queensland's voluntary *ecoBiz* program, which is funded by the State Government but delivered by the Chamber of Commerce and Industry Queensland and provides funding for business energy, waste and water saving initiatives.

ACCI queries the need for mandatory energy efficiency schemes. It doubts that the benefits of such schemes exceed their costs, believes that the energy efficiencies created by these schemes could be achieved by voluntary means, which would cost less, and believes that some of efficiencies gained through such schemes would be pursued even without the schemes. We are also concerned that mandatory energy efficiency targets involve increases in the costs of electricity and gas. Small business in particular has difficulty absorbing these cost increases.

The EWP should consider the impact that mandatory energy efficiency schemes have on business, especially the higher energy prices and the additional regulatory burden they impose, the legitimacy of their objectives and whether their costs exceed their benefits. Whilst most of the existing schemes are State ones, it is important that the impacts of energy efficiency schemes are considered in developing a national EWP.

3.6 Gas as a Cleaner Energy Fuel

Gas produces around half the greenhouse gases of coal. It is therefore often mentioned as a key fuel in the transition towards lower carbon emissions. However, there are some key challenges which the EWP needs to consider. These include:

- That without a carbon price it will be more economic to invest in coal-fired generation.
- That gas prices are increasing sharply and this will tilt the balance away from gas-fired generation even more.³¹

³¹ As a rule of thumb, for every \$1/Gj increase in the price of gas the costs of gas fired generation increases by around \$6-7/MWh.

- That the RET is and will continue to crowd out opportunities for gas generation (notwithstanding its higher cost) due to the generous subsidy renewable generation receives and the substantial size of the RET target.
- How will the large demand for gas for export as LNG impact on domestic gas supplies?
- How will the declining demand for electricity affect the need for new gas fired generation?

As if to give life to some of these concerns, the Queensland Government owned Stanwell Corporation has recently announced that it is mothballing a significant gas-fired power station and replacing it by bringing one of its coal-fired units built in the 1980s back into operation. It declared that “Australia is one of the world's most expensive countries for energy” and warned that the electricity market is being distorted by the carbon tax, mandatory renewables target and solar-rooftop subsidies.³² It plans to resell the gas it has pre-purchased and said that it could generate more revenue doing this than by burning the gas to generate electricity.³³

3.7 Nuclear Power

Australia has abundant supplies of uranium and exports them to numerous countries for use in nuclear power. However, Australia does not itself generate nuclear power and no major political party (at Federal or State level) is currently in favour of building nuclear power stations in Australia. The political and community obstacles would appear to be considerable. Juxtaposing the export and domestic positions, there appears to be an element of inconsistency. The justification for this tends to be that Australia has an abundance of coal, gas and renewables and does not need nuclear power. However, this ignores the global role that nuclear power may come to play in providing base load power in future, especially if there are concerted attempts to reduce global carbon emissions. Australia should not ignore this possibility.

ACCI does not currently have a position of supporting the development of nuclear power in Australia but, from a business point of view, we can see the need to establish how this may need to happen, when and what the advantages and disadvantages would be. Recognising that there are complex issues to resolve and that planning and building any nuclear power capacity in Australia will take time

³² See *The Australian*, ‘Gas prices force switch to coal for power generation’, 6 February 2014

³³ See *Brisbane Times*, ‘Swanbank power station to close for three years’, 5 February 2014, <http://www.brisbanetimes.com.au/queensland/swanbank-power-station-to-close-for-three-years-20140205-321m6.html>.

(perhaps as long as 20 or 30 years) the lead times are substantial and require contingency planning. We are therefore calling for a public debate on these matters and for the EWP to provide a starting point.

3.8 Cleaner Energy Technology

Developing and improving energy technologies that emit less carbon is a key plank in any drive to lower emissions in the most effective and economic way possible. There is broad agreement that technology is a key enabler. ACCI believes that all available technologies should be considered including:

- Cleaner and more efficient coal-fired generation
- Gas for generation and as a primary fuel source (or feedstock)
- Renewable technologies
- Energy efficiency and demand management
- Distributed generation
- Nuclear power
- Storage

We are therefore calling on the EWP to include cleaner energy technology as one of its key strategies and to set out a framework which can give effect to timely developments in this area. Whilst government support and facilitation may well have a key role to play, it is even more critical to get the policy settings right and to harness private sector creativity.

4 RECOGNISING THE NEEDS OF SMALL BUSINESS IN THE EWP

ACCI believes that it is important that the needs of small business are considered in the development of the EWP and incorporated into the final document. This would be consistent with the Government's policy of supporting small business. Many parts of this submission have raised issues which are relevant to this, but it is worth précising the key areas which reflect the needs of the small business community. These are that:

- Energy reform must continue and outstanding reform issues be dealt with.
- Reforms support competitive markets and effective regulation of monopoly energy networks.
- A secure and reliable supply of energy is provided and that the cost of achieving reliability reflects the willingness of small business to pay for it rather than artificially imposed standards.
- Red and green tape be cut where possible or otherwise be limited to the minimum efficient level.
- Funding for small business participation in energy advocacy through their representative bodies continues.

5 CONCLUSIONS AND RECOMMENDATIONS

We offer the following conclusions and recommendations for consideration in development of the Energy Green Paper.

ACCI's Core Strategic Energy Policy Priorities

1. Business needs Governments to pursue reforms in both the electricity and gas sectors, and at a greater pace, for it to remain competitive. This must be reflected in the EWP.
2. The EWP should strive to put in place a strategy that can repeat the formula for successful earlier energy reforms.
3. The EWP needs to be framed in a way that recognises and develops a strategy around the importance of energy as an input to business.
4. The EWP must ensure that future energy policy and regulatory settings:
 - a. Never again permit large and unjustified prices increases to go unchecked for significant periods of time.
 - b. Ensure that poor policy or regulatory decisions are corrected quickly.
 - c. Ensure that poor policies and regulation are avoided in the first place.
5. ACCI does not support the use of domestic reservation policies for gas.
6. ACCI would rather see an approach to domestic gas use that focuses on stimulating supply, and transparent, open and competitive gas markets.
7. ACCI supports the sale of remaining government-owned electricity assets to the private sector, including transmission and distribution networks. The privatisation of remaining publicly-owned electricity assets should be supported in the EWP.
8. ACCI recognises the benefits for consumers of effective incentive based regulation of monopoly energy networks and supports the inclusion of network regulation as a key plank of the EWP.
9. The EWP should ensure that gaps in network regulation are addressed in a timely way and monitoring of the effectiveness of recent reforms by SCER. This includes that the design of the regime was intended for privately-owned networks not government-owned ones.
10. The EWP should understand the reasons behind recent downturns in energy demand and address how a fundamental shift in demand could affect policy (and regulatory) settings.
11. The EWP should include an assessment of retail market issues, and develop a strategic framework to incorporate these into future policy. This includes an assessment of, and monitoring of, the health of competition in energy retailing, the dominance of a few retailers in electricity and gas markets, the

absence of Full Retail Competition in some jurisdictions, the continued application of price regulation, the lack of generator competition in some jurisdictions and the impacts of vertical integration.

12. An important issue for the EWP is to incorporate a strategic approach that facilitates and encourages healthy competition in generation.
13. The EWP needs to recognise the importance of governance and institutional arrangements to energy policy. It should ensure that the arrangements work efficiently and cost effectively, and deliver benefits to consumers (and market participants).
14. The EWP should ensure that the Government's priority on reducing the regulatory burden on business is applied to energy. To give effect to this we support a Productivity Commission inquiry, using Regulatory Impact Statements and obligations on agencies to effectively communicate regulatory decisions to consumers.
15. The EWP should ensure that consumer participation and advocacy, including by small business, are integral to future energy policy.
16. This must include direct funding of bodies representing consumers. Small business advocacy is unlikely unless such funding is provided.
17. Small business should be able to participate in forums such as the Energy Consumer Body, Consumer Challenge Panel and energy committees.

Cleaner Energy Issues

18. The EWP must recognise that the carbon tax has significantly increased energy prices and costs to business and support its abolition.
19. The EWP needs to take account of how the application of the Emission Reduction Fund will impact on energy policy.
20. ACCI supports abolition of the Renewable Energy Target (RET) or, failing that, its significant winding back. ACCI intends to make separate submissions to the forthcoming RET review. The EWP should take into account the significant costs of the RET and develop energy policies which recognise this.
21. The EWP should consider the impact of State/Territory solar subsidy schemes on national energy policy.
22. The EWP should consider the impact that mandatory energy efficiency schemes have on business, especially the higher energy prices and additional regulatory burden they impose
23. The EWP should consider the impacts that a range of issues particularly rising gas prices and renewable energy subsidies will have in reducing opportunities for gas fired generation to contribute to lower carbon emissions.
24. ACCI does not currently have a position of supporting the development of nuclear power in Australia but is calling for a public debate on this issue and for the EWP to provide a starting point.
25. The EWP should include cleaner energy technology as a key strategy and set

out a framework to give effect to timely developments in this area. All available technologies should be included. Whilst government support and facilitation may have a key role to play, it is critical to get the policy settings right and to harness private sector creativity.

Recognising the Needs of Small Business in the Energy White Paper

26. ACCI believes that it is important that the needs of small business are considered and incorporated into the EWP. This would be consistent with the Government's policy of supporting small business.

ACCI looks forward to the development of the EWP and to further opportunities to contribute to this, including responding to the Green Paper.

ACCI MEMBERS

Chambers of Commerce & Industry



**ACT AND REGION CHAMBER OF
COMMERCE & INDUSTRY**
12A THESIGER COURT
DEAKIN ACT 2600
T: 02 6283 5200
F: 02 6282 2436
E: chamber@actchamber.com.au
www.actchamber.com.au



**CHAMBER OF COMMERCE &
INDUSTRY QUEENSLAND**
INDUSTRY HOUSE
375 WICKHAM TERRACE
BRISBANE QLD 4000
T: 07 3842 2244
F: 07 3832 3195
E: info@cciq.com.au
www.cciq.com.au



**NEW SOUTH WALES BUSINESS
CHAMBER**
LEVEL 15, 140 ARTHUR STREET
NORTH SYDNEY NSW 2060
T: 132696
F: 1300 655 277
E: navigation@nswbc.com.au
www.nswbc.com.au



**CHAMBER OF COMMERCE &
INDUSTRY WESTERN AUSTRALIA**
180 HAY STREET
EAST PERTH WA 6004
T: 08 9365 7555
F: 08 9365 7550
E: info@cciwa.com
www.cciwa.com



**TASMANIAN CHAMBER OF
COMMERCE & INDUSTRY**
309 Liverpool Street
HOBART TAS 7000
T: 03 6236 3600
F: 03 6231 1278
E: admin@tcci.com.au
www.tcci.com.au



BUSINESS SA
ENTERPRISE HOUSE
136 GREENHILL ROAD
UNLEY SA 5061
T: 08 8300 0000
F: 08 8300 0001
E: enquiries@business-sa.com
www.business-sa.com



**CHAMBER OF COMMERCE
NORTHERN TERRITORY**
CONFEDERATION HOUSE
SUITE 1, 2 SHEPHERD STREET
DARWIN NT 0800
T: 08 8982 8100
F: 08 8981 1405
E: darwin@chambernt.com.au
www.chambernt.com.au



**VICTORIAN EMPLOYERS'
CHAMBER OF
COMMERCE & INDUSTRY**
486 ALBERT STREET
EAST MELBOURNE VIC 3002
T: 03 8662 5333
F: 03 8662 5462
E: vecci@vecci.org.au
www.vecci.org.au

National Industry Associations

ACCORD – HYGIENE, COSMETIC AND SPECIALTY PRODUCTS INDUSTRY
FUSION BUILDING SUITE 4.02,
LEVEL 4, 22-36 MOUNTAIN STREET
ULTIMO NSW 2007
T: 02 9281 2322 F: 02 9281 0366
E: emifsud@accord.asn.au
www.accord.asn.au

AUSTRALIAN FOOD & GROCERY COUNCIL ASSOCIATION
LEVEL 2, SALVATION ARMY
BUILDING 2-4 BRISBANE AVENUE
BARTON ACT 2600
T: 02 6273 1466 F: 02 6273 1477
E: info@afgc.org.au
www.afgc.org.au

AUSTRALIAN RETAILERS' ASSOCIATION
LEVEL 10, 136 EXHIBITION
STREET
MELBOURNE VIC 3000
T: 1300 368 041 F: 03 8660 3399
E: info@retail.org.au
www.retail.org.au

MASTER BUILDERS AUSTRALIA LTD
LEVEL 1, 16 BENTHAM STREET
YARRALUMLA ACT 2600
T: 02 6202 8888 F: 02 6202 8877
E: enquiries@masterbuilders.com.au
www.masterbuilders.com.au

AGRIBUSINESS EMPLOYERS' FEDERATION
250 FOREST ROAD
LARA VIC 3215
T: 03 5272 9223 F: 03 5274 2084
E: aef@aef.net.au
www.aef.net.au

AUSTRALIAN HOTELS ASSOCIATION
LEVEL 4, COMMERCE HOUSE
24 BRISBANE AVENUE
BARTON ACT 2600
T: 02 6273 4007 F: 02 6273 4011
E: aha@aha.org.au
www.aha.org.au

AUSTRALIAN SELF MEDICATION INDUSTRY
Suite 2202, Level 22, 141 Walker
Street North Sydney NSW 2060
T: 02 9922 5111 F: 02 9959 3693
E: info@asmi.com.au
www.asmi.com.au

MASTER PLUMBERS' & MECHANICAL SERVICES ASSOCIATION OF AUSTRALIA (THE)
525 KING STREET
WEST MELBOURNE VIC 3003
T: 03 9329 9622 F: 03 9329 5060
E: info@mpmsaa.org.au
www.plumber.com.au

AIR CONDITIONING & MECHANICAL CONTRACTORS' ASSOCIATION
30 CROMWELL STREET
BURWOOD VIC 3125
T: 03 8831 2800 F: 03 9888 8459
E: natamca@amca.com.au
www.amca.com.au

AUSTRALIAN INTERNATIONAL AIRLINES OPERATIONS GROUP
C/- QANTAS AIRWAYS QANTAS
CENTRE
QCA4, 203 COWARD STREET
MASCOT NSW 2020

BUS INDUSTRY CONFEDERATION
LEVEL 2, 14-16 BRISBANE
AVENUE
BARTON ACT 2600
T: 02 6247 5990 F: 02 6230 6898
E: enquiries@bic.asn.au
www.bic.asn.au

NATIONAL BAKING INDUSTRY ASSOCIATION
BREAD HOUSE, 49 GREGORY
TERRACE SPRING HILL QLD 4000
T: 07 3831 5961 E: nbia@nbia.org.au
www.nbia.org.au

AUSTRALIAN BEVERAGES COUNCIL
LEVEL 1, SUITE 4
6-8 CREWE PLACE
ROSEBERRY NSW 2018
T: 02 9662 2844 F: 02 9662 2899
E: info@australianbeverages.org
www.australianbeverages.org

AUSTRALIAN MADE, AUSTRALIAN GROWN CAMPAIGN
SUITE 105, 161 PARK STREET
SOUTH MELBOURNE VIC 3205
T: 03 9686 1500 F: 03 9686 1600
E: ausmade@australianmade.com.au
www.australianmade.com.au

CONSULT AUSTRALIA
LEVEL 6, 50 CLARENCE STREET
SYDNEY NSW 2000
T: 02 9922 4711 F: 02 9957 2484
E: info@consultaaustralia.com.au
www.consultaaustralia.com.au

NATIONAL ELECTRICAL & COMMUNICATIONS ASSOCIATION
LEVEL 4, 30 ATCHISON STREET
ST LEONARDS NSW 2065
T: 02 9439 8523 F: 02 9439 852
E: necanat@neca.asn.au
www.neca.asn.au

AUSTRALIAN DENTAL INDUSTRY ASSOCIATION
LEVEL 5, 757 ELIZABETH STREET
ZETLAND NSW 2017
T: 02 9319 5631 F: 02 9319 5381
E: national.office@adia.org.au
www.adia.org.au

AUSTRALIAN MINES & METALS ASSOCIATION
LEVEL 10, 607 BOURKE STREET
MELBOURNE VIC 3000
T: 03 9614 4777 F: 03 9614 3970
E: vicamma@amma.org.au
www.amma.org.au

HOUSING INDUSTRY ASSOCIATION
79 CONSTITUTION AVENUE,
CAMPBELL ACT 2612
T: 02 6245 1300 F: 02 6257 5658
E: enquiry@hia.com.au
www.hia.com.au

NATIONAL FIRE INDUSTRY ASSOCIATION
PO BOX 2466
WERRIBEE NSW 3030
T: 03 9865 8611 F: 03 9865 8615
E: info@nfia.com.au
www.nfia.com.au

AUSTRALIAN FEDERATION OF EMPLOYERS & INDUSTRIES
PO Box A233
SYDNEY SOUTH 1235
T: 02 9264 2000
F: 02 9264 5699
E: admin@afei.org.au
www.afei.org.au

AUSTRALIAN PAINT MANUFACTURERS' FEDERATION
Suite 604, Level 6, 51 Rawson Street
EPPING NSW 2121
T: 02 9876 1411 F: 02 9876 1433
E: office@apmf.asn.au
www.apmf.asn.au

LIVE PERFORMANCE AUSTRALIA
LEVEL 1, 15-17 QUEEN STREET
MELBOURNE VIC 3000
T: 03 9614 1111 F: 03 9614 1166
E: info@liveperformance.com.au
www.liveperformance.com.au

NATIONAL RETAIL ASSOCIATION
PO Box 1544
COORPAROO DC QLD 4006
T: 07 3240 0100 F: 07 3240 0130
E: info@nra.net.au
www.nra.net.au

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**OIL INDUSTRY INDUSTRIAL
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AUSTRALIA**

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T: 02 8789 7300 F: 02 8789 7387
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www.printnet.com.au

PHARMACY GUILD OF AUSTRALIA

LEVEL 2, 15 NATIONAL CIRCUIT
BARTON ACT 2600
T: 02 6270 1888 F: 02 6270 1800
E: guild.nat@guild.org.au
www.guild.org.au

**RESTAURANT & CATERING
AUSTRALIA**

Level 3,
154 Pacific Hwy
St Leonards, NSW, 2065
T: 1300 722 878 F: 1300 722 396
E: restncat@restaurantcater.asn.au
www.restaurantcater.asn.au

**PLASTICS & CHEMICALS INDUSTRIES
ASSOCIATION**

LEVEL 10, 10 QUEEN STREET
MELBOURNE VIC 3000
T: 03 9611 5400 F: 03 9611 5499
E: info@pacia.org.au
www.pacia.org.au

**VICTORIAN AUTOMOBILE
CHAMBER OF COMMERCE**

LEVEL 7, 464 ST KILDA ROAD
MELBOURNE VIC 3004
T: 03 9829 1111 F: 03 9820 3401
E: vacc@vacc.asn.au
www.vacc.com.au