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Energy White Paper Taskforce
Department of Industry GPO Box 1564 CANBERRA ACT 2601
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Dear Sir/Madam,

CSR LIMITED SUBMISSION:

Energy White Paper; Issues Paper

CSR Limited welcomes the opportunity to make a submission in response to the Issues paper, which sets out a range of positions that may be taken by the Department of Industry (DoI) in advance of forming the white paper on the fundamental issues of energy reform within Australia.

In reviewing the paper, we believe that there are a number of issues that will have major implications for not just our business but all the manufacturing industry, as it is core to the productivity and growth of production in Australia.

In this submission, CSR have restricted its commentary to specific issues relating to the issues paper, however we are open to making further recommendations for consideration by the Government moving forward.

To this end CSR believes that any energy reform considered by the government should:

- Embrace market transformation at the wholesale level, to ensure transparency and efficiency in distribution and regulatory measures that could increase supply
- Consider consolidation of regulatory schemes eg RET, EEO etc, developed with respect to energy across the nation to minimise the costly administrative and financial burden for genuine energy users.

If you have any questions regarding this submission please do not hesitate to contact either myself or CSR's Energy Manager Anne Casamento via email at acasamento@csr.com.au

Yours sincerely,

Martin Jones
General Manager Government Relations
7 Feb 2014



1. EXECUTIVE SUMMARY

CSR Limited is an ASX Listed Top 200 company with operations in Australia and New Zealand. The company has over 70 manufacturing and distribution facilities throughout Australia producing high quality innovative building products for use in the construction industry. The company employs approximately 3,500 people in Australia and made a significant contribution to the Australian economy totalling over \$500m in 2013 in the form of taxes and royalties, wages, contractors, suppliers, capital investment and corporate social investment programs.

CSR is both a major consumer of energy and also a contributor to innovative energy efficiency solutions within Australia. The development of Australia's Energy White Paper and subsequent legislation will have a direct impact on our business and confidence to continue to invest in Australia.

There have been a number of significant changes in the domestic and global energy and energy resource sectors over the past seven years. Given the increasing costs of energy commodities, the challenges linked to energy reform in the economy, together with the recent loss of confidence in financial institutions in many parts of the world, it is critical that Australia has a clear and workable framework to drive significant and sustained investment.

To this end, CSR's overriding concern is that any future reform of energy regulations does not compromise our ability to deliver our core products or services. CSR has identified a number of key issues within the paper that would benefit from further discussions and dialogue with the manufacturing industry.

They include:

- Actively pursue free market development across the industry, to encourage competition both upstream and downstream.
- Encourage competition both upstream and downstream
- Reduce regulatory constraints and legislation that would assist in encouraging a range of new participants and innovation across the energy sector.

2. INTRODUCTION

As a leading manufacturer of building products, the Company is committed to ongoing innovation in the built environment and received 20 patents in the last twelve months and has 48 patents pending. Many of these relate to improvements in energy efficiency in the construction and use of buildings. The company is organized into four divisions:

- Bricks and Roofing, which manufactures PGH™ Bricks and Pavers, Monier™ and Wunderlich™ Roof Tiles.
- Lightweight Systems which manufactures Gyprock™ Plasterboard, Cemintel™ Cement sheeting and Hebel products.
- Viridian™ Glass. This business manufactures float glass and has a downstream business fabricating and heat treating glass and producing integrated glazing units for double glazed windows.
- Bradford which produces Bradford™ Gold glass wool insulation and Edmonds™ Ventilation.

The businesses vary from Bradford™ Insulation and Viridian™ upstream glass being trade exposed and energy intensive, to energy intensive products such as bricks and terracotta tiles which while less trade exposed are subject to product substitution.

Finally there are light weight systems (eg plasterboard and cement sheeting), which while consuming energy, tends to be a smaller component of product cost. Nevertheless increasingly these businesses are becoming more trade exposed and competitiveness in the sector is increasing.

On the other hand Bradford™ Energy Solutions was recently established to provide energy efficiency solutions to the residential, commercial and industrial sectors. The knowhow was based on our in-house experience.

CSR's understanding is that from 2015 onwards, gas prices for Australian businesses are forecast to double and that based on the AEMO¹ outlook there may be insufficient gas to supply the NSW market reliably. As the Prime Minister said recently² "affordable energy should be one of the nation's comparable advantages" and "we ought to be an affordable energy superpower". We concur with the Prime Minister's remarks. However we do not see every measure being undertaken by governments to see that this becomes reality.

CSR would contend that we must have comparable energy costs to those with whom we compete. This comparison should be based on industry sectors, not a broad country wide tariff comparison.

Of the 300 largest consumers using 56% of Australia's primary energy their cost of energy should be compared with those costs paid by their direct competitors. This gives a fair comparison of the energy competitiveness of the Australian economy. The company is concerned that the White Paper has been set in an energy producers' context and not on the most important measure – the energy users' situation.

The benchmark should be those industries which are trade exposed. CSR does not accept that because we have energy hungry Asian market on our doorstep, and the gas economics are such that LNG export is the most attractive option for Australian based gas producers, that Australian consumers should pay netback prices. Other LNG exporting nations do not do this as a matter of course and neither should we. The domestic market for gas is seriously flawed and the magnitude and impact of that has not been sufficiently recognised in the Eastern Australia Gas Markets Report. Government should not simply accept blind economic faith that subscribing to gas netback economics is in the best interests of the country. We contend it is not.

3. Terms of Reference

CSR agree that a challenge for any reform is the creation of flexible and efficient energy markets. CSR understand this will be difficult given the historical growth of the industry and the number of incremental legislative packages developed over time which have indirectly impacted the energy markets, and subsequent end user pricing of energy.

¹ AEMO 2013 Gas Statement of Opportunities

² The Australian 23 Dec 2013

CSR believe that energy reform needs to be conducted in the context of understanding the needs of energy users and based on sound evidence, including the need for an internationally competitive economy. CSR believe that such reform is now urgently required.

CSR is a business that has worked in competitive markets throughout its history. However this cannot be done in the presence of compounding non-competitive impediments as currently exist. CSR are of the belief that adjustments to commodity energy pricing could be better managed.

CSR are concerned that the current issues paper will not address this and is based on the acceptance by government that industry will just adjust, (without consideration of transitional or reform assistance). This is not in the national interest. Good government should take into account the interference by existing regulations on the markets and make decisions on regulatory changes are required to address this matter. This may require repeal of poor legislation in some cases and the addition of regulation in others to strike a new balance which both drives competitiveness and allows the industry to develop within a domestic framework.

As an example, we recommend the white paper builds on the Eastern States Gas Market Review and develops specific recommendations for the gas market in Australia, examining the compounding lack of competition with respect to upstream, downstream costs, and retail expense on end user costs.

RECOMMENDATION 1: CSR recommend that the issues paper be extending to include the compounding costs of regulation and lack of competition in wholesale and retail markets, especially gas.

4. The Security of Energy Supply

4.1 Shortages of Low Cost East Coast Gas

The issues paper suggests the consideration of an apparent abundance of gas on the east coast. CSR understands that there is a magnitude of reserves and are concerned (to say the least) that there are potential shortages of gas, particularly in New South Wales.

The Eastern Australian Gas Market Report discusses measures to:

- Improve gas market transparency
- Implement the CoAG (SCE) reforms.
- Reduce pipeline costs by increased efficiencies

CSR believe that these discussions must be turned into firm recommendations. Furthermore the paper failed to address joint marketing arrangements, first raised in the Parer report of 2002 and more recently raised in the report to the Victorian Government³. While these recommendations and discussed improvements are all necessary many will take considerable time to implement, particularly if Government

³ Gas Market Task Force Oct 2013

waits for the completion of the White Paper. This will not be sufficient for those industries facing the gas transition.

In particular:

- a) Consideration should be given to developing an effective domestic market quarantined from exports. This would involve a certain obligation on gas producers to supply a domestic market where buyers and sellers can negotiate suitable long term contracts. It is clear from a statement by Santos⁴ that there is plenty of demand for LNG in Asia until at least 2025. Any additional gas produced in Australia will not necessarily end up in the domestic market, or it may only do so at a price which effectively buys it from Asia. It is unlikely in that instance that increased supply will put downward pressure on prices. Ramp gas was supposed to depress prices ahead of the start-up of the LNG trains, but in effect through storage and arbitrage with gas fired generators this did not emerge.
- b) Risk should be placed on those failures appropriately. The Australian domestic market place should not be asked to bail out LNG developer's investments where exploration failures have produced insufficient supply to meet contracts. Other industries carry their own risk of failure, not the Australian people, who after all are the owners of the gas.
- c) If arrangements for this are unable to be effective to deal with the transitional issue of shortages and price spikes it may be necessary to develop a transitional package for badly impacted industry. Time is running out.
- d) AEMO should have a greater role in improving market knowledge, price discovery, developing a uniform approach to Australia's gas markets.
- e) Establish a National Gas Authority
This could have the characteristics of the Gas Commissioner model recommended by the Victorian Task Force and as implemented in Queensland. The Authority would work towards the development of effective gas markets and development of a gas industry which balances the export opportunity and domestic requirements.

The Authority would have a policy component and an education component to smooth resource development.

RECOMMENDATION 2: Set new rules to establish a functioning domestic market to avoid monopolistic behaviours.

5. Regulatory Reform and Role of Government

5.1 Government Tariff structures, including fixed network costs.

RET Review

RET has become a double edged sword in some respects. On some energy bills the RET cost is itemised. Users then see a line item cost, but do not understand that without RET prices would be higher. In a falling consumption market, new RET capacity coming on to the grid is depressing wholesale prices, although this is difficult to directly measure.

⁴ Australian Financial Review 13 Jan 2014

The combination of appropriate tariffs and RET certificates makes renewable energy viable at a residential and commercial level. **CSR is supportive of renewable energy pathways and energy efficiency programs. However the white paper should examine the most cost effective way to achieve this.**

Governments are interested in reducing the cost of power to consumers, through energy efficiency measures and addressing peak loads. With demand shrinking the cost of transmission and the network need to be recovered over a smaller energy volume carried on the grid.

Careful thought needs to be given to tariff structures. De-regulated markets such as Victoria can charge anyway they want, however it runs the risk of sending messages to the market that the marginal cost of power is quite small, which will encourage users to act counter to the policy intent.

6. Growth and Investment

CSR is a proven company that has achieved growth and investment within Australia as a result of innovation and competitive growth. The white paper needs to address this issue in the context of growth and innovation in the domestic sense. The sole objective for energy growth should not focus on LNG alone, but should examine local demand creation. CSR is not opposed to the development of the LNG industry; however that should not be at the expense of domestic manufacturing.

Measures should be introduced to provide use it or lose it provisions for both onshore and offshore gas. Too frequently producers sit on gas that others may wish to develop. The study should examine international practice, but developers should not be allowed to sit on reserves for ever. It maybe that there are separate conditions for those who have reserves that are unavailable for export compared to those that can access export arrangements.

The concept is to ensure gas fields are developed and that affordable gas is available to the domestic market.

Reduction of regulatory burden

CSR seeks changes to the Energy Efficiency Opportunities legislation.

Energy efficiency in manufacturing has matured considerably from the time the program was first conceived. Energy costs have risen 200% since EEO was developed. There is sufficient evidence on balance that the EEO program should be discontinued. Gross levels of data on energy consumption and national tracking of energy use can be obtained through NGERs.

An Acil Tasman⁵ survey in 2013 found that:

- 61% of respondents want the program to stop now and 85% wanted it halted. In fact further analysis based on a somewhat false analysis would suggest there is an overwhelming view that EEO has negative value.
- Only 15% of respondents want the program continued.

⁵ ACIL Tasman, engaged by the Department of Resources, Energy & Tourism in June 2012.

While CSR has not estimated the compliance cost of EEO, it is internally regarded as the most burdensome requirement with the least benefit. Given the company operates an energy efficiency business it might be surprising that we do not support it –however it doesn't fit with how business is being conducted in this market today.

Those companies who find benefit in the program should be able to participate in EEO at their own option (i.e. voluntarily).

Levels of disclosure and transparency

SCE should continue its work to extend the harmonised framework for CSG regulation to tight gas and shale gas.

However the social license requires more than this. A Gas Commissioner or similar role under a National Energy Authority as described earlier can fulfil the need to win back the community.

7. Trade and International Relations

No comments

8. Workforce Productivity

No comments

9. Driving Energy Productivity

CSR supports measures to improve energy efficiency across the economy. However it does not mean that policies need to be applied to all sectors of the economy.

Regardless of EEO, CSR as part of its ongoing Operations Improvement Program (OIP) assessed energy efficient improvements for 95% of its energy use, covering 22 manufacturing sites. Under this program 203 opportunities were identified. However despite rises in energy prices of 200% since the EEO program was conceived only 17 projects to the value of \$6m investment were progressed.

The remainder will be re-tested over time as circumstances change. These will be re-examined as gas prices rise by an estimated 40% in coming years.

However none of this effort can or should be attributed to the EEO program. The program is unnecessarily obtrusive to business and does not create any value add. Those people who see value in the process should be able to opt-in to it.

Nevertheless opportunities abound outside large scale energy users in manufacturing. Smaller businesses and commercial and residential sectors still have many opportunities.

For instance Queensland has a high level penetration rate of residential air conditioners with a high cost to the grid for each new kW of capacity installed. It also has very low rates of installed insulation, which after draught proofing is the most cost effective way to reduce energy and improve comfort.

Ceiling insulation in Queensland for instance for the existing 399,00 houses with no insulation could improve their star rating by 2.3⁶, provide annual savings to residents of 2285 Mj pa . Savings are greater in the cooler states with a national average potential of 11958 MJ/a. Peak load savings could be reduced by 482.2MW in 2020.

Since the demise of the Home Insulation Program confidence in the retrofit market has declined and a great opportunity exists for a well-developed program through VEET or ESS.

Programs such as this would be well suited to the National Energy Savings Incentive. However this has been slow to gain buy in from the States. A fast track way would be to extend the NSW ESS scheme which applies to essentially all users. This could be extended to cover gas and importantly allows for a project assessment method. This provides a broad scope of opportunity. Furthermore the scheme could be enhanced by allowing proponents to claim savings by reducing peak loading.

The energy efficiency of the built environment in Australia still lags the rest of the world even where climate zones are similar. Although the Australian Building Codes call up a national 6 star rating this has not been adopted uniformly. Queensland has exemptions for decks and ceiling fans and NSW BASIX is not yet upgraded to 6 star. The current changes proposed will only take the standards in that state to 5.5 stars.

A program of increasingly stringent standards and timetable should be adopted by COAG. CSR constructed an 8 star demonstration house at Schofields in outer Sydney to understand how mainstream builders could design and build more energy efficient houses. This house is wired up to analyse the heating/cooling requirements of a typical modern home.

The building industry is slow to change. Builders argue that the cost of upgrading standards is high, although recent work suggests the cost to meet a 7 star rating with draught proofing is quite modest.

There is a clear case emerging that Australia should review its standards and that:

1. Draught proofing be made mandatory.
2. A time table to introduce a 7 star standard by 2017 should be set.

Australia builds about 150,000 residential properties per annum. Over time considerable energy savings can be built into the economy for little cost but significant gains in energy savings, peak load savings and reductions on the grid, to at least lower investment. Furthermore occupants find these houses to be quieter and more comfortable.

10. Alternative and Energy Sources and Technology

The RET provides strong incentives for small scale generation, eg solar and solar hot water for instance, while LRET covers larger scale installations, such as wind. Through CSR Bradford Energy Solutions the company has developed commercial offers for solar pv and solar hot water, having acquired the former Hills solar hot water business.

⁶ The Value of Insulation Based Residential Energy Savings Measures in Australia, Energy Efficient Strategies Sep 2012. Prepared for the Insulation Council of Australia and New Zealand

While the cost of solar pv in particular is falling, so too have the incentives through reduced fee-in tariffs nationally.

For business what is most important is bankable policy. Too frequent program reviews cause uncertainty and an unwillingness from clients to make investments. CSR would prefer that the term between RET reviews is increased.

The AEMC estimates that the cost of SRES in 2014/15 is projected to be 0.2c/kwhr out of a total bill of 31.3c/kwhr. Thus SRES costs 0.6% of a typical consumer bill.⁷ Given the high popularity of solar PV with the community this is a small price to pay. However consumers are essentially paying for two schemes, SRES and LRET.

⁷ AEMC 2103 *Household Electricity Price Trends 2013*