

Business
Council of
Australia



Submission to the Department
of Industry regarding the
Energy White Paper Issues Paper

The Business Council of Australia (BCA) brings together the chief executives of more than 100 of Australia's leading companies, whose vision is for Australia to be the best place in the world in which to live, learn, work and do business.

About this submission

The Australian Government released the Energy White Paper Issues Paper in December 2013. This submission is in response to the issues paper, and it also addresses issues relevant to related policy processes including the Gas Strategy, the review of the Renewable Energy Target (RET), and the development of the Direct Action Plan.

The Business Council of Australia welcomes the opportunity to comment on the Australian Government's issues paper, which properly identifies the range of issues confronting the energy sector. The BCA submission seeks to make a positive contribution to the process to the benefit of all Australians.

The purpose of the Energy White Paper (EWP) should be to provide a vision and set the direction for energy (and related) policy over the next decade and beyond. It should provide a framework to guide policymaking within and across all levels of government. It should include actions targeted to achieve Australia's energy objectives both in the near term and longer term. It is critical that this framework and its recommended actions are supported by an effective stakeholder consultation process that enables it to be embraced by all levels of government, industry and the broader community to ensure effective implementation.

This EWP process provides the opportunity to reorient energy and related policy to build on our natural energy advantage, meet our domestic demand and grow our energy exports.

Access to low-cost reliable supplies of energy is a key driver behind the competitiveness of the Australian economy. Our historical competitive advantage in this area cannot be taken for granted. We urgently need to lift Australia's productivity if we are to continue to see our economy grow. Completing the final pieces of energy market reform and bringing on new gas supplies to meet expanding demand are exactly what is required at this time to boost our softening economy.

To deliver this the BCA believes Australia needs to ensure it has a comprehensive and coherent national energy policy that drives the development of our energy resources, supports a strong energy export industry, and provides for the secure, reliable and efficient delivery of competitively priced energy to households and businesses. These opportunities should be delivered while meeting best practice environmental standards and seeking to minimise our greenhouse gas emissions in line with global efforts.

Achieving this will require all Australian governments to commit to a stable and predictable energy policy and regulatory framework that facilitates efficient investment and sustainable market growth. With the right policy settings, markets can most efficiently deliver what is good for the community and economy.

Key points

- The Energy White Paper must set a vision for Australia's energy policy that maximises Australia's competitive advantage in energy through efficient markets and drives growth in our energy exports, while minimising Australia's greenhouse gas emissions in line with global efforts.
- In accordance with this vision, the EWP should establish a framework and agenda that is adopted and implemented collectively across all Australian governments.
- The EWP should adopt a market-based energy policy framework that builds market resilience, promotes competition, provides stable and predictable guidance for investors and delivers efficient outcomes for consumers.

- Critically, the EWP must create a platform for decisions in these key areas:
 - removing unnecessary barriers to the development of new natural gas supplies
 - reducing regulation and government intervention in the market that is found to be pushing up the cost of energy to consumers for no apparent benefit
 - streamlining and accelerating the planning, approvals and environmental assessment processes for major projects across Australian governments
 - creating new momentum for energy market reform for state governments to: privatise energy assets; move to retail price monitoring; and adopt independent and economically efficient reliability standards.
- The EWP must recognise the energy-intensive nature of much of Australia's industry and the importance of energy to the competitiveness of our economy.
- The EWP should ensure that our energy productivity is not hampered by poor or ad hoc policy interventions in the market. Distortions to markets and interventions should be minimised, resultant risks should be manageable by participants and must not precipitate asset value impairments.
- The resilience of Australia's electricity markets – which face the cumulative impact of declining electricity demand, the Renewable Energy Target , and growing deployment of distributed generation – needs to be assessed.
- The Australian Government has a role to play in incentivising and explaining to the public the benefits of energy market reform to support the decision by state governments to remove themselves from participation in the market.
- Australian governments collectively need to show leadership and remove unnecessary barriers to the development of new natural gas supplies if they are to avoid obstructing the market from responding and adding further upward pressure to the price of gas.
- Given the small pool of Australian investors, and the capital-intensive nature of investments, Australia will continue to rely on foreign investment to grow and optimise our energy system.

Recommendations

The BCA recommends that through the EWP process, the Australian Government should:

- set a vision for Australia's energy policy that maximises Australia's competitive advantage in energy through efficient markets and drives growth in our energy exports while minimising Australia's greenhouse gas emissions in line with global efforts
- reconfirm its commitment to a market-based energy policy framework with clear objectives and policy principles that are adopted and implemented within and across all levels of government
- conduct a detailed assessment of the role and effectiveness of existing market settings, measures and policies against the government's energy policy vision and framework. This would enable identification of those policies that are misaligned with the government's energy objectives and principles, or are constraining the efficiency of energy markets.
- analyse the implications of declining demand, market interventions, withdrawn baseload generation capacity and increased intermittent and distributed generation on the long-term efficiency and security of our electricity markets. The government should draw on the expertise of the Australian Energy Market Commission and the Australian Energy Market Operator in undertaking this analysis
- develop new ways to build the case for the COAG-endorsed energy market reform agenda that will encourage state governments to make the necessary decisions through mechanisms such as productivity payments, alternative tax arrangements and commissioning independent assessment of the value of these reform to state economies

- ensure that network tariffs are efficient and that the cost of network infrastructure is equitably recovered by the diversity of users
- recognise the contribution large industrial users can make to the effective representation of the establishment of a consumer represented institution (the Australian Energy Consumer Organisation) to advise government on matters of energy market reform – leveraging this expertise would be to the benefit of all stakeholders
- support the development of Australia’s onshore gas industry by working with state governments to remove unscientific regulatory barriers and improve the efficiency of the regulatory processes, and facilitate priority gas projects that can alleviate supply tightness
- lift the general threshold that applies to private foreign investors from the current \$248 million to \$1078 million (enjoyed by New Zealand and the United States) to improve the competitiveness of Australia in attracting foreign investment for capital-intensive energy resource projects
- work with state and territory governments to remove or rationalise what remains of the 230 greenhouse gas emissions and energy efficiency policies and regulations identified by the Productivity Commission (PC) in 2011 that are imposing material costs on the community for little or no apparent benefit
- implement the recommendations of the PC’s report *Major Project Development Assessment Processes* as a matter of priority to remove unnecessary regulatory burdens on projects and minimise lengthy approval timeframes
- ensure that the design and operation of the RET and Direct Action Plan support the efficiency and long-term stability of our electricity markets, and minimise the energy and carbon costs to Australian businesses and households.

Discussion of key issues

The sections below cover the following issues:

- Framework and approach – vision, objectives and principles
- Electricity markets
- Energy Market Reform
- Gas markets
- Liquid and transport fuel market
- Attracting and maintaining investment in Australia
- Minimising and removing ineffective energy and related regulation
- Nationally consistent and streamlined approvals processes
- Coherent energy and greenhouse gas emissions reduction policies.

Energy policy framework

The BCA supports the Australian Government’s commitment to develop an integrated and coherent national energy policy. We see great merit in the EWP establishing a framework that articulates the government’s vision, objectives and policy principles that can guide a clear set of actions. If adopted into the government’s decision making, such a framework will set the long-term energy policy agenda – and related policy processes – to provide a stable and predictable environment for investment and business activity.

The Australian Government’s national energy policy should deliver on the vision of:

- maximising Australia’s competitive advantage in energy through efficient markets
- driving growth in our energy resource development and exports

- delivering reliable, efficient and competitively priced energy to households and business
- realising these growth opportunities while meeting best practice environmental standards and minimising Australia's greenhouse gas emissions in line with global efforts.

As our energy system is governed across all levels of government, Australia's energy policy framework needs to be adopted and implemented collectively and guided by a set of principles that reflect the following:

1. Energy is most efficiently delivered through well-functioning markets, supported by effective and efficient policy, regulation and processes.
2. The environmentally responsible development of energy resources should be supported by efficient and streamlined energy policies, regulation and processes.
3. Energy policies should:
 - recognise that energy is critical to our economy, and that security of supply should be delivered cost effectively
 - be stable and predictable to give the market confidence that long-term investment decisions can be made and adequate returns earned
 - provide a level playing field for the market to invest and operate within and they should be technology and fuel neutral
 - support market-driven outcomes and timely market responses to changes in demand.
4. Government regulation should be minimal, efficient and justified against objectives.
5. Government interventions should be a last resort, targeted at identified market failures, and designed and implemented with least market distortion.
6. The objectives and principles of energy policy should be recognised in related policy development, such as environmental and greenhouse gas emissions reduction policies.
7. Energy and greenhouse gas emissions reduction policies should support Australia's future economic growth and not compromise Australia's global competitiveness. Our greenhouse gas emissions reduction measures should be commensurate with global action, broadly based across the economy, and achieve emissions reductions at least cost.

Scope and approach

The EWP process should assess how Australia's energy markets are functioning and evolving, the opportunities and challenges they face over the next few decades, and the role and effectiveness of current market settings and policies. This process will enable identification of those policies that are misaligned with energy objectives and principles, or are constraining the efficiency of energy markets. This would also help to prioritise the policy settings that need to be removed or redressed.

Electricity markets

Australia's electricity markets are facing significant pressures, and there are serious questions over the market's long-term efficiency and stability under current policy settings.

The National Electricity Market (NEM) was designed as a technology-neutral, energy-only market. The means of exchange and price setting mechanisms in the wholesale sector were designed to promote competition, efficient production and investment decisions, and risk allocation and management, particularly with respect to demand risk. A wholesale market that meets these conditions is also a prerequisite for an efficient retail market and promoting the efficient use of electricity. This design has served Australia well for over 15 years. However, our electricity market is experiencing some major challenges.

Policy interventions in the market, through measures such as the RET, as well as subsidies for distributed generation, are impacting on the efficient operation of the market and need to be properly understood.

The NEM is currently oversupplied due to the decline in electricity demand and this oversupply is being exacerbated by the RET, which continues to mandate additional amounts of electricity supply into the market irrespective of demand.

In an efficient market, the decline in demand would signal that there was no need for additional supply. The RET as a mechanism, however, is not responsive to these signals or changes in demand and legislates for increasing amounts of renewable energy generation into the market out to 2020.

The combination of decreasing demand for electricity and additional electricity supply results in a suppression of the wholesale market price below the point at which demand and supply would ordinarily settle. The result is a fundamental shift in the way the wholesale electricity market operates in that it is no longer the market signalling the timing and type of generation that the market can sustain. Instead, government intervention – through the RET legislation – dominates and directs increased volume and the form of supply. This distorts the wholesale market and its ability to deliver efficient outcomes.

As part of the review of the RET, the BCA considers that the government should assess the resilience of the electricity market and its ability to deliver reliable and least cost electricity over the longer term under these changing circumstances. The key issues for the efficiency of the NEM is to ensure that the lack of responsiveness to changes in demand by the RET, and the funding mechanism via Renewable Energy Certificates (RECs), which add to retail prices, are not impacting on NEM pricing and contracting mechanisms. Furthermore, the implications of more baseload generation exiting the market and more volatile intermittent generation entering should be assessed.

At the time of legislating, the RET was expected to take up the majority of new generation capacity expected to be needed over the proceeding decade; however, the decline in electricity demand means that the fixed 45 terawatt hours (TWh) target is likely to exceed 20 per cent of demand by 2020 and is estimated to approach closer to 30 per cent.

This highlights the problems associated with the expected outcomes from a policy intervention being dependent on forecasts of the future. When future prices, technology and demand turn out to be different, so do the impacts of the intervention. That is why these decisions are best left to the market, which can more effectively respond to change.

The intended repeal of the carbon price will also have consequences for the operation of the RET. The lower wholesale price of electricity that will eventuate from the repeal of the carbon price is likely to lead to higher REC prices as renewable energy generators seek to recover their losses from reduced wholesale margins through the REC mechanism. Under this scenario, there is a risk that if the REC price increases to the level of the penalty price, liable parties will opt to meet their obligations through paying the penalty price rather than buying RECs. In effect this would mean consumers would be paying a higher price for electricity, with no additional renewable energy generation. The BCA encourages the government to fully consider these issues as part of the RET review in light of the intended repeal of the carbon price.

For these reasons, the BCA welcomes the government's review of the RET, which should take full account of changed circumstances since the RET was established. In particular, it should consider the allocation of demand-side risks, the compatibility of funding mechanisms with the means of exchange used in the NEM, and ensure the electricity market can operate efficiently, while minimising electricity costs to consumers without risks to security of supply over the longer term. The BCA strongly encourages the Australian Government to draw on the expertise of the Productivity Commission, Australian Energy Market Operator (AEMO) and the Australian Energy Market Commission (AEMC) for the review.

We have also seen the advent of grid-backed distributed energy systems. This was originally stimulated by governments; however, the rapid and increasing deployment of these systems and the implications on the energy market and grid system also needs to be assessed.

Energy market reform

Competitive markets

The Australian energy market reform agenda needs to find new momentum.

Reform of the energy sector has been going for over 20 years, yet there still remain critical outstanding reforms that are holding back Australia's biggest market, the NEM, from being the truly national, competitive and liberalised market it was intended to be.

What needs to be done is well known – but it needs to be delivered. The BCA recognises that the majority of key reforms are being held back by state governments, but there is a role for the Commonwealth to support state governments in making what are often viewed as politically difficult decisions. This will require political leadership.

When it comes to energy market reform, Victoria and South Australia have led the way, with New South Wales, Queensland, Western Australia and Tasmania lagging behind. Privatising the remaining energy assets and moving to retail price monitoring are the key outstanding reforms in these jurisdictions.

The BCA supports the reference in the Energy White Paper Issues Paper to encouraging privatisation of government-owned energy assets consistent with the findings of the PC, which identified that the sale of state-owned energy assets facilitates more efficient service delivery.

There are no compelling reasons why governments should own energy assets, as the experience in Victoria with its privately owned energy assets has demonstrated. Unlike government-owned assets, private assets are not potentially conflicted between their owners' rule-making functions, political objectives and as a participant in the market. These conflicts (perhaps more applicable in the case of network assets) can lead to a boom/bust cycle of investment as governments seek to meet their objective of the day, whether that be responding to reliability issues or cost minimisation. This invariably leads to price shocks for electricity consumers.

The case for privatisation may be well understood by policymakers, but there remains a need to better explain the role and benefits of privatisation within the community. A fresh look at the issue and articulation of the reasons why privatisation is good for state economies and the efficient distribution of electricity should be undertaken to inform the public. Accordingly, the BCA supports analysis by the PC or equivalent body to further quantify the benefits of privatisation to help build public support for the reform.

The BCA is also supportive of the Australian Government giving consideration to encouraging state governments to privatise energy assets through a provisional rebate of corporate tax following any asset sale. These are the types of actions that are needed to bring a new momentum to energy market reform.

State governments should also honour their commitment to move to retail electricity price monitoring. Price regulation is stifling competition and muting price signals for consumers. Energy prices should reflect the cost of supply so consumers can respond accordingly. These reforms provide retailers with the operating environment necessary to offer new technologies that can deliver new pricing structures and other services to customers so they have more options to manage costs.

Only once these outstanding reforms are carried out can the full potential of productivity improvements from the energy sector be realised and the pressure of competition deliver choice and real savings to consumers.

Regulated assets

In the last five years electricity networks have been the major driver behind the cost increases in electricity prices. From 2006 to 2013 the average household electricity bill increased by 85 per cent. Of that figure, increased network charges accounted for more than half.

Numerous factors were responsible for the increased cost in networks from upgrading and replacing network infrastructure to meet rising peak demand, network rules which tended to favour investment over cost minimisation, and requirements to meet standards of reliability that in some states are not economically efficient.

The BCA notes the reforms being carried out through the Standing Council on Energy and Resources (SCER) to seek to ensure the network regulatory regime operates efficiently. These include changes to the network rules and merits review regime, additional resources to the Australian Energy Regulator (AER) and greater consumer scrutiny of network determinations.

It is too early to say whether these reforms will be effective to curtail further inefficient increases in network costs. The BCA will closely monitor the outcomes of the next regulatory determinations to assess if these reforms have been successful.

There are, however, a number of additional reforms needed to improve the efficiency of Australia's electricity networks and the BCA identifies the following four key network reforms to ensure the efficient supply of electricity to consumers:

1. Privatisation of state-owned network assets

The BCA supports the privatisation of network assets to bring sufficient improvements to their efficient operation and to provide state governments with an income stream to invest in economic infrastructure.

2. Adoption of economically efficient reliability standards

The BCA supports the adoption of a framework for setting distribution and transmission reliability that accords with economic probability of risk as recommended by the AEMC with the transfer of responsibility for developing the values of customer reliability given to the AER. This is necessary to promote efficient network investment and allow reliability levels to be set independently and better reflect the needs of customers.

The issues paper recognises the importance of ensuring reliability requirements reflect the value attributed to those services by consumers and identifies this as a priority for the government. The BCA supports this approach and agrees consumers should have greater input in setting reliability standards given it is consumers who ultimately pay for these services.

3. Effective consumer representation as part of the energy market governance structure

Effective representation of all consumer interests (large or small) as part of the institutional arrangements of Australia's energy markets is essential if the regulatory framework is to be enforced effectively.

4. More cost-reflective network tariffs

This issues paper raises the need to review existing network tariff structures in the face of rapidly growing deployment of grid-backed-up distributed energy systems, to ensure proper distribution of costs. The BCA supports a move to more efficient tariffs to ensure the total fixed costs of network infrastructure is equitably recovered by the diversity of electricity consumers.

Gas markets

The east coast gas market is currently going through a major transition. The market is set to triple in size over the next few years, driven predominately by increased demand for liquefied natural gas (LNG) exports, which has resulted in significant new investment in proving up and unlocking Australia's gas reserves.

While it is widely known, and often stated, that there is enough gas in the ground to meet both export and domestic demand over the longer term, the key issue is the timing and delivery of gas supplies.

There is uncertainty around the timing and quantum of natural gas supply to the east coast gas market due to the variability in coal seam gas well productivity, as well as regulatory uncertainty, which is constraining new gas development.

Australia has the gas reserves, the price incentive and willing producers who are ready to bring on new gas supply. However, the market response is stymied by a lack of political leadership and regulatory constraints.

It is in the interest of gas suppliers, users and governments to bring on the safe and timely supply of gas:

- LNG producers need to meet their contract obligations – failing to deliver contract gas is a risk to LNG suppliers as well as Australia's reputation as a reliable energy exporter and investment destination
- large industrial users of gas would benefit from new supplies of gas to help minimise price pressures and alleviate tight market conditions
- gas aggregators need gas supplies to meet the gas needs of Australian businesses and households
- governments need sufficient gas to ensure businesses and households have access to gas that is competitively priced and to avoid the risk of potential shortfalls and curtailments.

More broadly, developing our gas resources and LNG exports contributes to our economy through job creation, government revenue and the energy needed to underpin our domestic industries.

The BCA supports that Australian Government, and encourages all Australian governments, to:

- actively get behind and support Australia's natural gas industry
- take immediate steps to remove unscientific regulatory barriers and improve the efficiency of the regulatory approvals processes
- facilitate and expedite project-ready gas projects, particularly those in New South Wales.

Australia's gas markets are based primarily on confidential bilateral contracts that differ based on the negotiated price, duration and terms of the contract. Gas prices are rising due to higher production costs, increased demand competition and the link to export pricing. Various analysts are projecting east coast gas prices to rise sharply from 2014 towards LNG netback levels and plateau at the end of the decade as LNG projects reach capacity. There is concern in some quarters that gas prices will spike as demand intensifies during this period.

Looking forward, based on natural market behaviour, gas will be priced around its opportunity cost in the market – this will be either at the prevailing LNG netback prices (where the gas has the opportunity to compete as export) or gas-on-gas competition, where export potential is lacking. The price will be a matter for negotiation between parties, and contract terms will also be a factor, particularly in the short term.

While a rising price is not a market failure, the extent of the price rise is not inconsequential. An effective doubling, tripling or more of the gas price will be acutely felt by large gas users. This will be most acute on those firms that cannot absorb the jump from the previous historical price to the new price floor.

Regulatory barriers and ongoing uncertainty is constraining the gas market's ability to respond by bringing on new supplies of natural gas that will only serve to prolong and exacerbate tight market conditions and price pressures. Regulatory barriers such as moratoriums on fracking, unscientific exclusion zones and duplicative federal regulation regarding water resources for select industries, are preventing the market from responding to demand. Not taking action to alleviate these barriers risks obstructing the market from responding by bringing on new natural gas supplies and adding further upward pressure to the price of gas.

For the most part, the BCA is broadly supportive of the options outlined in the East Coast Gas Study to address regulatory constraints, and facilitate priority projects, and welcomes the opportunity to work closely with the government in the development of its gas strategy.

Liquid and transport fuel market

The BCA notes the numerous assessments undertaken as part of the National Energy Security Assessment, which highlight that Australia's liquid fuel security is high given our access to reliable, mature and highly diversified international liquid fuel supply chains.

The issues paper makes reference to Australia's membership to the 1974 agreement on the International Energy Program. However, it does not present a compelling case that Australia's energy security would be significantly enhanced through mandatory stock-holdings, without significant practical implications and cost to consumers or taxpayers.

The BCA sees value in encouraging the exploration and development of fuel reserves – like all forms of energy reserves. In the absence of new oil discoveries, Australia will continue to rely on imports to supply our domestic refineries, consistent with trends in numerous countries. The market can make an orderly transition to more imports; however, governments have a role in ensuring efficient planning, approval and regulatory process are exercised for the timely investment in necessary import infrastructure – ports, terminals, and storage.

The issues paper raises the technology, infrastructure and commercial barriers to the uptake of alternative fuels and electric vehicles, and outlines the current government support for alternative fuels. The BCA acknowledges that there is a role for government to identify and address market failures and barriers to entry for these alternatives. However, the issues paper does not explain the case for the Ethanol Production Grants Program. As noted in the recent Bureau of Resources and Energy Economics (BREE) report, this program is highly costly, has a slightly negative impact on energy security, and presents an astonishingly high GHG abatement cost with an effective cost of \$274 per tonne of CO₂-e.

The BCA welcomes this report and continues to support BREE as an independent organisation providing information to the market and policymakers to support policy development. The BCA supports policymakers drawing on this information to assess the costs and benefits of this program.

Australia's energy market settings should provide a level playing field for the market to invest and operate within. In this regard, the current fuel excise arrangements that give differential treatment to fuels should be redressed.

Attracting and maintaining investment in Australia

Australia has many energy advantages, with our diverse and prospective resources, and our proximity to growing energy markets in Asia; however, we cannot take our competitive position for granted.

The BCA welcomes the government's focus on productivity. As highlighted in the BCA report *Pipeline or Pipe Dream? Securing Australia's Investment Future*, Australia is becoming a high-cost place to invest, and low labour productivity compared to other nations has reduced the competitiveness of our project delivery. Rising cost pressures and stalling productivity are undermining Australia's capacity to deliver the current wave of major oil and gas projects to budget and schedule.

To secure the next wave of investment in our energy sector, Australia needs to be an attractive place to invest. Government has a role in maintaining and attracting investment through sound macro-economic settings; competitive fiscal regimes; access to supporting infrastructure and a productive workforce; and streamlined and accelerated exploration and development approval processes.

Australia should aim to become a leading destination for foreign investment. Australia's standard of living owes much to our continued ability to attract and utilise foreign investment. Through most of Australia's history, access to overseas capital has helped foster higher rates of economic growth,

develop new industries and infrastructure, and strengthen our trade and investment linkages with the world.

Given the small pool of Australian investors, and the capital-intensive nature of investments, Australia will continue to rely on foreign investment to grow and optimise our energy system. Competition for foreign investment is increasing, as a number of countries develop their energy resources to meet global energy demand.

The issues paper seeks comment on ways to improve unnecessary barriers to foreign investment. The BCA supports Australia easing its restrictions on foreign investments to improve the competitiveness of Australia in attracting foreign investment. The OECD rates Australia as having the sixth most restrictive foreign direct investment regime among OECD members. While retention of some screening of foreign investment is important, Australia should lift the general threshold that applies to private investors from the current \$248 million to \$1078 million (currently enjoyed by only New Zealand and the United States).

The government should also further clarify its approach to investments by foreign governments, sovereign wealth funds and state-owned enterprises, recognising that these investors are a growing source of funds that are available to provide the capital to help develop good investment opportunities in Australia.

Minimise and remove ineffective energy and related regulation

Beyond the energy market reforms discussed above, the Energy White Paper should consider the regulatory burden on energy projects, energy suppliers and energy users. There remains much scope to reduce energy and carbon emission red tape, which is imposing significant costs on business and reducing the productivity of the Australian economy.

The BCA questions the need for the Energy Efficiency Opportunities (EEO) program to continue in its current form. Energy is a significant input cost to the businesses that are required to report under the EEO. These businesses already have the means and incentives to manage their energy efficiency, and will adopt measures that business deem viable. The EEO program is an added regulatory burden, and the benefits from continuing to apply this burden on participants are not apparent.

The PC identified around 230 greenhouse gas emissions and energy efficiency policies and regulations at the Australian, state and territory government level in 2011, with many imposing a material costs on the community for little or no apparent benefit. It is unclear the extent of progress to remove or rationalise these measures. The BCA encourages the Australian Government to commit to work with its state and territory counterparts to remove this costly red tape.

The issues paper also seeks comment on additional means beyond the mandatory targets and grants to encourage further development of renewable energy and ways to encourage a lower-emissions energy supply. We urge the government to consider the regulatory burden, costs and benefits of these any proposed new measures, and the implications on the efficiency of the market and cost to consumers.

Nationally consistent and streamlined approvals processes

The BCA welcomes the government's focus on streamlining the regulatory approvals process for major projects. The recent PC report on *Major Project Development Assessment Processes* identified several unnecessary regulatory burdens on project proponents, lengthy approval timeframes, lack of regulatory certainty and transparency, conflicting policy objectives and inadequate consultation.

The BCA strongly supports the government implementing these recommendations as a matter of priority. These factors result in higher project costs and do not present an attractive framework for investment.

The need to remove double-handling of environmental assessments and approvals between the Commonwealth and state governments has been identified by several independent studies and

reports. The BCA supports the PC recommendation for a 'one project, one assessment, one approval' framework for major projects.

To provide an example of the regulatory burden that environmental approvals process places on business, Woodside's 2012 Rosebud seismic survey potentially triggered compliance with four separate pieces of legislation administered by four state and Commonwealth agencies. Three separate submissions were prepared which contained similar content but required different formats and assessment processes. The proposed survey was then referred to the West Australian Environmental Protection Agency, which decided that no assessment was required after all. The cost to prepare an environmental plan and supporting documents has also increased from less than \$100,000 per well (pre NOPSEMA) to \$450,000–\$750,000 per well (post NOPSEMA).

The issues paper seeks comment on areas where approvals processes could be further streamlined while maintaining proper environmental safeguards. The BCA supports the Commonwealth and state governments developing robust environmental standards as part of the process of streamlining environmental assessments and approvals. Robust, clearly defined and adopted environmental standards will both reduce regulatory burden as well as support better environmental outcomes.

Australian governments should also investigate improving the efficiency of the approvals processes for the use of alternative fuels such as waste-to-energy. Opportunities to use alternative fuel sources are often being stifled by poor and delayed government processes. These create a further disincentive to switch to alternatives. In some instances these delays can lead to landfill gas being flared rather than used an energy source.

Coherent energy and greenhouse gas emissions reduction policies

Australia's energy policy settings must be designed to drive growth in our energy exports and provide for the reliable and competitively priced supply of energy, while seeking to minimise our greenhouse gas emissions in line with global efforts.

For too long energy and climate change mitigation policy have tended to be developed in isolation of one another, rather than as part of an overarching policy framework. This fragmentation means policies are developed to meet conflicting objectives, which leads to inefficiency, which creates higher costs to consumers. The Australian Government should use the EWP process as an opportunity to remove, or at least minimise, inefficient government interventions in the market that are pushing up the cost of energy to consumers.

The BCA accepts the bipartisan commitment to reduce Australia's emissions by five per cent by 2020, on 2000 levels and recognises its intention to repeal the carbon price and develop its Direct Action Plan to meet this target.

With respect to the repeal of the carbon price, the BCA is concerned that if the legislation is not passed before 1 July 2014, and the date of repeal remains uncertain, that retrospectively seeking to recoup the cost of the carbon price from the energy sector and large energy users will add significant complexity and risk to the process. The BCA urges the government to provide certainty and set out a clear process for how it will manage such a situation should it arise.

In designing the detail of Direct Action and its implementation, the government should pay particular attention to developing a workable, lowest-cost policy which does not compromise the efficient operation of Australia's electricity markets and which provides the foundations for a long-term policy framework that is responsive to international negotiations.

In a report on the RET, the Australian Industry Greenhouse Network in November 2013 found the overall cost of abatement of the RET to range from \$30 to \$290 per tonne of carbon emission which is by no means a 'least cost' measure to reduce emissions, particularly compared to the relative price per tonne of emissions that can be sourced through international carbon emissions units.

The BCA firmly believes that Australia can meet its abatement goals and not compromise the competitiveness of the economy. To do so requires recognition of the scientific fact that one tonne

of greenhouse gas abatement in Australia has the same impact on global climate change as one tonne from any other country. The BCA supports the government's consideration of the use of international credits as part of its development of the Emissions Reduction Fund, given international emission units currently present the least-cost way of meeting the government's 5% by 2020 target, and would have minimal impact on business and household costs.

It is critically important that the various reviews and processes the government has announced including the EWP, RET and Direct Action Plan should collectively work together to ensure their overarching goals are consistent and do not compromise the ability of our energy markets to deliver least-cost outcomes to Australian businesses and households.

Accordingly, the review of the RET as outlined under the existing legislation should be expanded to also assess the implications of the RET on Australia's electricity markets in meeting the National Electricity Market objective. In particular, whether the objective to deliver least-cost and reliable electricity in the long-term interest of consumers is being met. The RET review should also seek to ensure it minimises the impact on investment decisions already made while ensuring electricity costs are minimised over the longer term.

The Energy White Paper Issues Paper seeks comment on the uptake of specific technologies and fuels and highlights current government programs to support specific technologies. As the BCA outlined in its 2013 *Action Plan for Enduring Prosperity*, Australia's energy policies should allow all forms of energy technology to succeed based on merit, whether it be carbon, capture and storage, low-emissions coal technologies, geothermal, solar, or wave. Nuclear energy as a source of lower emissions technology should not be ignored.

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