

Response ID ANON-VDK4-6B3P-M

Submitted on 2014-10-29 18:12:51.455204

Privacy Collection Statement

Do you agree to the Privacy Collection Statement?

Yes, I agree and would like to make a submission using Citizen Space

Individual or Organisation submission?

Are you making a submission as an individual or on behalf of an organisation?

Organisation

Organisation questions

Please select your organisation type from the list below

Organisation type:

Company – Generator

What Industry sector is your organisation part of?

Industry Sector that respondent is part of:

Electricity, Gas, Water and Waste Services

What is the name of your organisation?

Name of Organisation respondent works in:

ATCO Australia

What position do you hold within the organisation?

Position respondent holds within the organisation:

Manager, Government Relations, Policy & Sustainability

Your Name and Location

What is your name?

Name of respondent:

Jeff Olling

Do you live in Australia?

Yes

List of States and Territories

Which State or Territory do you reside in?

State or Territory where respondent lives:

Western Australia

1. Attracting energy resources investment

The Government seeks comments on ways the Goals set out at the beginning of this chapter could be achieved.

Provide your response in this box:

Revenue from energy resources exports is integral to Australia's national economy. If Australia is to attract major commercial investment and remain internationally competitive in the face of increasing global demand led by the emerging economies in China, India and South East Asia, particularly in circumstances of increased global supply, the Australian Government will have to reform regulatory processes and tighten inefficiencies in the industry.

One particular area which will be of significant importance to the Australian economy in the coming decades, and which requires immediate reform, is the rapidly growing liquefied natural gas (LNG) sector. With a predicted increase in production of two hundred and fifty percent on current levels within the next four years (*1), and a forecasted worldwide demand projected to increase by almost fifty percent in the next twenty years (*2), Australia must be positioned to take

advantage of international opportunities.

It is widely acknowledged that Australia's LNG projects are significantly more costly than those of its major competitors. This is due, in part, to the geographic isolation of major resource projects and the strong Australian dollar. But more significantly, Australia's higher cost base for major projects can be largely attributed to regulatory complexities and inefficiencies in the production and supply chain.

In order to increase productivity, lower operating costs, drive growth, encourage major investment and ensure Australia's international competitiveness in the LNG export industry, the Australian and State Governments must work together, preferably with bipartisan support, and in consultation with industry, to address issues of energy policy, industry regulation and industrial relations. Specifically, any reform should provide: (a) long term policy stability (as the affected companies typically return their investment over decades through many changes of government); (b) a regulatory framework that is robust, transparent and workable; and (c) improved workplace productivity and skills (by undertaking urgent labour market reform, identifying/remediating workforce skilling issues and providing access to skilled migration if necessary to complement locally available skills).

(*1) 'Extending the LNG boom', McKinsey & Co Report, May 2014, p.45

(*2) Ibid

Upload your supporting document (up to 5MB) relating to attracting energy resources investment:

No file was uploaded

2. Electricity prices

The Government seeks comments on ways the Goals set out at the beginning of this chapter could be achieved.

Provide your response in this box:

The sharp increase in electricity prices in recent years can be largely traced to increasing peak demand. Peak demand (and demand forecasting) drives investment in infrastructure; if peak demand increases, or is forecasted to increase, so too does investment in infrastructure. This investment in infrastructure, in circumstances where general electricity demand is declining, translates to massive price increases for consumers. Household electricity prices have risen by around 50 per cent nationally over the past four years, mainly due to investment in poles and wires, to meet anticipated rising peak demand and ensure reliable supply (*3). And, up to two thirds of retail electricity bills are attributable to these network costs (*4).

In an attempt to curb the costs to consumers, electricity costs have been heavily subsidised. However, such subsidisation is extremely costly to tax-payers and is rapidly becoming unsustainable. Further, by artificially constraining increases in retail electricity costs, there have been a number of unintended consequences; namely, there has been a direct negative impact on natural gas as a competitively priced and cleaner energy choice, and price signals to consumers, and investment signals to other energy users, are distorted. The net result is an inefficient market that harms the long-term interests of consumers, contrary to the very objective of efficient energy markets.

Addressing the issue of increasing electricity prices will not be easy or painless. However, the first step towards a long-term solution is ensuring pricing is transparent and cost-reflective. That is, that electricity pricing reflects the true price of production, transmission and distribution. In this way, adequate returns for investors are achievable, which in turn ensures long-term asset and service investment and viability, while also increasing energy efficiency and reducing peak use through proper price signalling. If such a correction is not made, a so-called 'death spiral' will continue whereby consumers will continue to opt-out of the grid and into distributed generation such as solar photovoltaic (PV) panels, further raising costs over a smaller base of consumers resulting in further departures from the grid, creating disastrous consequences for the electricity market.

Equally important to reforming pricing structures, is consumer participation. Through education and awareness, and the assistance of so-called 'smart technologies' to provide real-time feedback in usage, consumers can make informed choices and respond appropriately to price signals to increase energy efficiency and lower peak demand. Concomitantly, governance bodies must ensure that demand forecasting is tightened, to ensure a higher degree of reliability and provide necessary signals to inform investor decisions.

Finally, as competition and choice drive and support the delivery of innovation and the best sustainable economic outcome for all stakeholders, privatisation of government-owned infrastructure should also be considered by the relevant State and Territory Governments as a potential means to lower electricity pricing in the long-term. Privatisation of energy assets would allow competitive forces put downward pressure on costs, but also have the added benefits of removing Government exposure to energy market risks and increasing investor confidence (as independent operators do not have to be concerned with competing against large, usually vertically integrated, entities (so-called 'gen-tailers'), some of which have a monopoly on certain sectors of the market). It also alleviates potential conflicts of interest experienced by some States, whereby the Government is both the owner of the asset and policy maker.

(*3) Energy Green Paper, Department of Industry, p.25

(*4) Ibid, p.26

Upload your supporting document (up to 5MB) relating to electricity prices:

No file was uploaded

3. Building gas supply and improving market operation

The Government seeks comments on ways the Goals set out at the beginning of this chapter could be achieved.

Provide your response in this box:

Despite an abundance of gas reserves, likely near-term domestic gas supply shortages (particularly in the eastern market), and potential long-term LNG export shortages, are currently the most pressing issues in the energy sector. These gas supply issues are predominantly the result of the commencement of the LNG export market in Queensland. Due to the highly lucrative nature of the market, all available reserves on the east coast of Australia are being directed to Queensland for export, at the expense of domestic users. It is also putting upward pressure on domestic gas pricing, as the gas price is now linked to the higher Asian market's gas price.

Under current policies and gas price forecasts, it is estimated that by 2021 the Australian economy will suffer a loss in output (*5) of approximately \$150 billion between the manufacturing and mining sectors alone. The electricity sector is also likely to suffer, with gas-fired electricity generation providers expected to exit the market in the next few years (*6).

The natural consequence will be massive job losses in the manufacturing, mining and electricity generation sectors for thousands of Australians, the export of manufacturing jobs, risk to energy reliability and security, a greater reliance on coal for energy production and concomitant increase in greenhouse gas emissions.

The obvious answer to combat increasing gas prices is to significantly increase gas supplies, particularly through State Governments' lifting their ban on the development of coal seam gas (CSG) in both New South Wales and Victoria. In addition to lowering gas prices, such an increase in gas production will ensure Australia can meet its domestic gas needs as well as LNG export commitments, provide increased jobs in the mining sector and job security to the manufacturing and electricity generation sectors, encourage further investment in gas-fired power generation stations and ensure greenhouse gas emissions are kept to a relative minimum.

In order to further safeguard domestic gas supplies and protect domestic users (including the manufacturing, mining and electricity sectors), it is respectfully submitted that the Australian Government reconsider a domestic gas reservation policy, or at a minimum a national interest test, as significant policy considerations when determining approvals for the export of LNG.

(*5) 'Gas market transformations: Economic consequences for the manufacturing sector', Deloitte Report, July 2014, p.54

(*6) Ibid

Upload your supporting document (up to 5MB) relating to building gas supply and improving market operation:

No file was uploaded

4. Security, innovation and energy productivity

The Government seeks comments on ways the Goals set out at the beginning of this chapter could be achieved.

Provide your response in this box:

As an efficient, and reliable proven large-scale and lower emissions source of energy, natural gas will not only provide long-term energy security for Australian consumers, but will also play a pivotal role in reducing Australia's greenhouse gas emissions in line with the Australian Government's reduction commitments to 2050.

Therefore, ensuring that Australia has a well-functioning gas market is vital to Australia's future prosperity. In particular, Government must support, and invest in, the development of conventional and unconventional natural gas reserves, to ensure sustainable gas supplies and avoid near-term domestic gas shortages. As noted above, this can be best be achieved by addressing issues of long-term energy policy stability, industry regulation and industrial relations.

As a further safeguard to energy security, ATCO reiterates its recommendation that the Australian Government reconsider its policy on a domestic gas reservation policy, or at a minimum a national interest test, for the reasons outlined in the preceding section.

Finally, the Australian Government should also consider, as part of the regulatory framework under its Direct Action Plan, the stepped closures of ageing coal-fired electricity generation facilities in an effort to increase reliability, ensure energy security, significantly reduce Australia's greenhouse gas emissions and move towards cleaner, and more efficient, energy technologies.

Canada recently led the way in relation to a real reduction of greenhouse gas emissions in energy production, by enacting legislation effectively setting an expiry date of 50 years for coal-fired electricity generation facilities. Among the reasons cited for the closures of these ageing facilities was their reduced reliability and efficiency, as well as community health deterioration because of the unclean by-products of the coal-fired electricity generation (*7).

If similar steps are not taken in Australia, the ageing coal-fired electricity generation facilities will not only become more costly in terms of the environment and the health of the Australian population, but also to householders as the cost of maintaining these facilities, and in turn, the costs of electricity, increases.

(*7) Health Effects of Coal', Climate Council Briefing Paper, September 2014

Upload your supporting document (up to 5MB) relating to security, innovation and energy productivity:

No file was uploaded

5. Other comments or additional information

Do you have other comments or additional information?

Additional comments or information:

Climate Change

Australia's climate change response will determine the future reliability, affordability and sustainability of its energy supply. As such, it is imperative that the Australian Government open climate change policy up for debate with industry, and the wider Australian community, to discuss its serious social, environmental and economic considerations, and formulate, preferably with bipartisan support, a long-term policy framework to reduce greenhouse emissions.

Long Term View

Energy policy development requires that those participating in the process take a long term view that extends beyond the election cycle. With bipartisan support, Government and industry can work together providing a stable environment for long-term investment decisions, which will ultimately provide economic benefits to consumers and strengthen the Australian economy.

ATCO welcomes the opportunity to participate in the consultation process on this important issue, as part of a wider public forum or more informally, to elaborate on the principles outlined in this document and ATCO's experience in operating in both the Australian and International markets.

Any questions about this submission should be addressed to Jeff Olling, Manager, Government Relations, Policy and Sustainability, by e-mail to jeff.olling@atco.com.au or telephone on (08) 9320 0247.

Upload your additional supporting document (up to 5MB):

No file was uploaded

Almost done

Are you ready to submit?

Yes:

Yes