



AUSTRALIAN CHAMBER OF  
COMMERCE AND INDUSTRY



SUBMISSION IN  
RESPONSE TO THE  
ENERGY GREEN PAPER

NOVEMBER 2014



# EXECUTIVE SUMMARY

This submission from the Australian Chamber of Commerce and Industry (ACCI) responds to the Energy Green Paper (EGP) released by the Federal Government as part of its development of an Energy White Paper (EWP). ACCI welcomes the release of the EGP and the opportunity to outline its position on energy policies that are important to business, including small and medium enterprises (SMEs).

## **ACCI's Key Priorities for the Energy White Paper**

ACCI has a number of key priorities for the development of the EWP. They are:

- Policy settings that facilitate the regulation of electricity and gas networks to support the needs of business for competitively priced energy delivered at a level of reliability reflective of the willingness of businesses to pay.
- Energy policy settings that ensure that ownership of electricity assets contributes to the needs of small business for competitive energy prices.
- Policy settings for renewable energy which contribute to the needs of small business for competitively priced energy and cost effective carbon abatement.
- Energy policy settings that encourage a competitive electricity/gas retail sector.
- Policies for the electricity sector which consider the impacts of the turnaround in consumption from strong long term growth to declining demand.
- Policies that assist domestic gas users, including small business, by stimulating gas supply, as well as by promoting transparent, open and competitive gas markets.
- Energy policy settings that support strong and effective consumer participation in energy markets, policy and regulatory processes by small business.

Our submission is structured around the four themes outlined in the EGP.

## **Attracting Investment**

ACCI supports policy predictability and clarity as a means of encouraging investment. The Government should pursue policies that are economically sound and encourage business activity, including in energy. Market based policies structured around ensuring competitive outcomes combined with private ownership and limited interventions are likely to provide the best basis for attracting investment. They are also the most likely policies to encourage energy productivity and innovation. The desire to attract investment into energy should domestic energy use.

ACCI strongly supports measures to remove red tape and regulatory duplication, including helping attract investment in the energy sector. Unnecessary regulation is a thorn in the side of business, reduces productivity and is a drain on the economy. We note the importance of streamlining regulation in all parts of the energy supply chain to Australian businesses. We therefore suggest the need for the EWP to encompass a broad spectrum commitment to review and streamline regulations. The starting point for this could be an inquiry by the Productivity Commission with the involvement of COAG and its Council on Energy also critical.

We welcome initiatives which the Government has taken or has in prospect to improve labour skills and training, which will assist the energy sector to become more productive and innovative.

The development of SME and indigenous employment opportunities are an important way in which productivity and innovation in the energy sector can be stimulated as investment occurs. SME opportunities could also be improved in the domestic energy supply chain with similar benefits. For example, SMEs can be used to provide a range of engineering, technical and consultancy opportunities in energy.

We recognise that the provision of and access to geo-scientific, as well as other scientific data and information can be important to developing our energy resources both for export and domestic use. One area where this would currently be beneficial is in relation to the extraction of coal seam gas (CSG), including its use of fracking for extraction, as this is one issue which is impacting on its development.

The EGP identifies an important need for the EWP to include measures designed to help find and alleviate energy transport constraints to ensure that energy supply reaches demand centres in a timely, reliable and efficient way. ACCI is particularly supportive of the need for states and territories that still own electricity assets to privatise these. This makes good economic sense. Electricity consumers benefit through more efficient provision and lower prices, whilst governments gain the proceeds and can access Federal financial incentives for new infrastructure.

The EWP should provide a framework under which export opportunities are related not just to the investment in energy resources but also industries with energy embedded in them.

## **Electricity Prices**

Average electricity prices rose by 70 per cent in real terms from June 2007 to December 2012, thus imposing a major shock on consumers. The large increase in electricity prices has also been a major reason why Australia has lost its cost advantage in energy. A 2012 study comparing Australian household electricity prices internationally and covering 91 jurisdictions showed that Australia had amongst the highest electricity prices. It is therefore entirely appropriate that the EGP has made placing downward pressure on electricity prices one of its four key themes.

The following responses would help to ensure that the Government's objective of putting downward pressure on electricity prices is realised:

- Committing to energy reform at a greater pace to boost productivity and competitiveness.
- A clear commitment to restore Australia's competitive advantage in energy.
- The COAG Energy Council undertake an assessment of what other areas of network regulatory reform could assist putting downward pressure on electricity prices.
- The COAG Energy Council should ensure that any changes to the structure of network tariffs are consistent with placing downward pressure in electricity prices.
- The Federal Government's forthcoming decision on the RET review should contribute to the objective of downward pressure on electricity prices.

- The COAG Energy Council should ensure that retail pricing and competition issues do not become an impediment to putting downwards pressure on electricity prices. The Productivity Commission could be asked to inquire into these matters.

ACCI supports the principal of cost reflective tariffs and recognises that flat tariffs embody an element of cross subsidy from those who use less to those who use more electricity, as well as from those who consume less at peak times to those who consume more. But ACCI is also concerned that the introduction of cost reflective tariffs not be used to increase the revenue of the electricity network businesses (or retailers) and points out that some consumers, including some SMEs, are constrained in their ability to modify their electricity use.

We agree that tariff reform needs to be accompanied by the introduction of smart meters if consumers are to respond to such reform and take advantage of its opportunities (or help them avoid the risks of paying more for their power). Consistent with the EGP, we support the provision of such meters on a contestable basis and by giving consumers a choice about installing them.

Whilst we recognise that the combined application of smart meters and smart grid technologies can benefit consumers, including SMEs, we are wary of proposals that force consumers to pay for the introduction of such technology.

ACCI supports steps to improve the access consumers have to data on their energy use, including instant online access. We note that this could help SME's to achieve energy savings, some of which could come at little or no cost (e.g. shifting use or determining where energy is being wasted).

Consumers, including SME's, need to be engaged in tariff reform.

We welcome that the EGP has recognised the need for a more strategic and long-term approach to national advocacy for energy consumers, including small business. This is consistent with our earlier submission. However, we urge these reforms ensure that there is close engagement with consumers and their representative bodies, including SMEs, and that advocacy funds continue to be directed principally at bodies that represent consumers. This helps maintain downward price pressure.

Most businesses, including SMEs are highly dependent on a continuous supply of electricity and gas. We also support reforms that tie reliability more closely to the willingness of consumers to pay for it, as well as to include greater transparency and have consumer participation in setting reliability standards. However, progress has been slow and we support that the COAG Energy Council accelerate implementation.

ACCI supports the pursuit of greater energy efficiency by Australian business where this is commercially sound. This includes electricity and gas. The role for government policy should be to facilitate this and overcome proven market failures that prevent the optimal pursuit of energy efficiency. Government intervention should not add unnecessary green tape or get in the way of business decision

making. Unfortunately, the track record of government energy efficiency programs is too often contrary to this. The EWP should avoid such outcomes.

For small business, actions to improve energy efficiency are often hindered by their lack of knowledge, time and resources. Government initiatives to help overcome this could usefully be targeted at collaborating with energy supplier and industry body initiatives, practical tools, demand management (aggregation) and training.

We would welcome additional federal, state and territory initiatives to rationalise, reform or remove emission reduction and energy efficiency schemes. Excluding the now repealed carbon tax, these accounted for 7 per cent of electricity bills in 2012/13. Before repeal they accounted for 16 per cent of bills. Modelling for ACCI by Deloitte shows that the cost of the RET to the economy could be up to \$28 billion and 5,000 jobs lost by 2030.

We welcome that the Government has already taken important steps to reduce the regulatory (and cost) burden on energy consumers through repeal of the carbon tax. Its red tape reduction strategy should include energy markets, but as national, state and territory arrangements play an important role in energy markets, it would be beneficial if the COAG Council on Energy and individual jurisdictions also played a role in reducing and reforming energy regulation. This could be assisted by a Productivity Commission inquiry into energy market regulation, increased use of Regulatory Impact Statements and other measures mentioned in the submission.

The submission also addressed energy market regulation in the context of the draft report of the Competition Policy Review, the impact of RET regulation on the electricity market, including how it distorts resource allocation and adds capacity to the market when it is not needed, which must eventually result in capacity withdrawals (with upward wholesale price pressure likely to follow).

## **Gas Supply & Development**

We welcome the significant attention that gas issues have received in the EGP. Gas supply and price issues are of significant concern to business as both gas and electricity users (as gas is also used to generate power). However, ACCI does not favour interventions to deal with these issues as they are unlikely to solve such problems and may even make them worse. Instead, we support policies to help increase the supply of gas, including for domestic use, and to foster transparent, open and competitive gas markets. The EGP contains a number of suggestions to increase supply, which we support. Nevertheless, if domestic supply constraints persist, there may need to be a contingency to adjust policy to deal with this eventuality. Difficulties in developing gas supplies in NSW continue to present a particular problem notwithstanding recent moves by the NSW Government to address some of the obstacles.

ACCI believes that the lack of price transparency in domestic gas markets reflects a combination of contractual issues, the involvement of gas producers in LNG export projects and a lack of competition. Notwithstanding some improvements, such as the development of short term trading markets, gas trading hubs and pipeline

capacity bulletin boards, there remains a lack of price transparency compared to the NEM and this is an impediment to efficient contracting and price disclosure. SME's tend to be worse affected because of their lack of knowledge, resources and time.

The EGP has some useful suggestions on how to increase gas market transparency and we would support an inquiry into competition in eastern gas markets, preferably by the PC. ACCI also recognises that gas users need to take steps to deal with the new realities of the gas market. However, SME's may well face greater challenges in doing so and there may be a case for governments to assist them through industry bodies or directly.

The EGP identifies some approaches that could be used to ensure that gas markets function more efficiently, namely, greater use of trading hubs and pipeline capacity trading, increased use of storage facilities and strengthening the gas market governance framework through the Gas Market Development Plan. It proposes to use a longer term gas market agenda to promote an efficiently operating market. ACCI is supportive of these proposals.

### **Energy Security, Innovation and Productivity**

Australia has by-and-large enjoyed a high level of energy security in the past and business has benefitted from this. We should also aim for a high level of energy security in future but the challenges of responding to greenhouse gas pressures in coal, associated technological change, gas supply issues and price increases, and diminished domestic oil refining capacity will need to be met. Providing for a more diverse supply of energy can help to meet this challenge but we also need to recognise the important role that our largest and most competitive energy resources should continue to play.

Renewables are already playing a bigger role and should only be supported by cost effective policies. Nuclear should remain under consideration recognising that Australia may face greater pressures for its introduction in future and needs to recognise the long lead times required for this.

The reliability of energy for transport purposes is also important. Maturity in Asia-Pacific oil markets and a range of alternative fuels could help us maintain reliability with a lower strategic stockholding obligation than at present, notwithstanding declining domestic refining capacity.

ACCI's submission also recognises: the potential benefits of a National Energy Productivity Plan; of developing a capacity to provide better energy outlooks; the significant financial commitment the Government has made to help develop renewable energy and CCS; that some regulation and legislation needs to support the development of future energy technologies; and that skills are needed to deal with existing and new energy technologies (including delivery through industry bodies and covering energy end-use). It supports the proposals for a flexible research system and a rationalisation of Australia's international energy collaborations to ensure they are as effective as possible in meeting the EWP's aims.

**The Australian Chamber of Commerce and Industry  
is the leading voice of business in Australia**

**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](mailto:info@acci.asn.au)  
W: [www.acci.asn.au](http://www.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](mailto:melb@acci.asn.au)  
W: [www.acci.asn.au](http://www.acci.asn.au)

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# 1. INTRODUCTION

The Federal Government is preparing an Energy White Paper (EWP) to set out its strategic energy policy framework. This builds on its pre-election promise of a “coherent, consistent energy policy to protect jobs and investment, and take cost pressures off energy users.”<sup>1</sup> The Energy Green Paper (EGP) is an important part of this process, providing a precursor to the EWP and will be used to inform its policy settings. It also provides an important context for further consultation with stakeholders on the development of the EWP given that it sets out the Government’s current policy intent. The Australian Chamber of Commerce and Industry (ACCI) welcomes the release of the EGP and the opportunity to provide this submission setting out its response to the EGP and its position on energy policies that are important to business, including small and medium enterprises (SMEs).

As mentioned in our earlier submission responding to the EWP Issues Paper<sup>2</sup>, we endorse the need for an EWP. Energy is a critical part of the Australian economy, both as an input to business and in its use by households. EWP policy settings should reflect its importance to energy consumers. We note that this view is consistent with the Terms of Reference the Government has provided for the development of the EWP.

Moreover, we note and support that the Government is developing a range of inter-related policies, of which the EWP is one, to provide a coherent and cohesive approach to important policy areas including, repeal of the carbon tax and Minerals Resource Rent Tax (MRRT), its Direct Action Plan – including the Emissions Reduction Fund – to reduce greenhouse gas emissions, the report of the independent panel that reviewed the Renewable Energy Target (RET), a white paper on Agricultural Competitiveness and Northern Australia, the reviews of Competition Policy, Taxation, and Vocational Education and Training, and the vision set out in the Government’s Industry, Innovation and Competitiveness Agenda. The promise that this holds for a set of coherent policies with important economic implications is attractive to business.

## 1.1 About ACCI

### 1.1.1 Who We Are

ACCI speaks on behalf of Australian business at a national and international level. Australia’s largest and most representative business advocate, ACCI develops and

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<sup>1</sup> The Hon. Ian Macfarlane, MP, Minister for Industry, *Energy Green Paper*, Foreword, p. iii, September 2014.

<sup>2</sup> ACCI, *Submission on the Energy White Paper Issues Paper*, February 2014 at <http://www.acci.asn.au/getattachment/0b71e065-dca5-4890-99e8-f0cb5e8b3d45/ACCI-Submission-to-Energy-White-Paper-Issues-Paper.aspx>.

advocates policies that are in the best interests of Australian business, our economy and the community.

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

- All eight state and territory chambers of commerce
- 29 national industry associations
- Bilateral and multilateral business organisations.

In this way, ACCI provides leadership for more than 300,000 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 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, 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 Energy White Paper Key Priorities

ACCI has a number of key priorities for the development of the EWP. These reflect our role as the nation's most representative business advocate, our aim of supporting policies that are in the best interests of business, including SMEs, and the importance of energy to the Australian business community. To this end, our key priorities also reflect the submission we have previously provided on the EWP Issues Paper. They are:

- As an overarching priority that 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.
- Policy settings that facilitate the regulation of electricity and gas networks to support the needs of business for competitively priced energy delivered at a level of reliability reflective of the willingness of businesses to pay. Network charges make up around half of the costs of electricity and gas to small business and are responsible for much of the recent increases they have seen in energy prices. We seek to ensure that the EWP sets out a strategic foundation for the regulation of energy networks and the determination of network charges that benefits business.
- Energy policy settings that ensure that ownership of electricity assets contributes to the needs of business for competitive energy prices and a highly productive energy sector. Ownership of assets can make a major difference to the competitiveness and productivity of the energy sector and, hence, the benefits which small business is able to derive from energy as a key input into the goods and services it produces. In particular, we submit that greater private ownership of electricity assets will facilitate such benefits. The EWP should set out a framework to facilitate this and mechanisms for achieving it.

- Policy settings for renewable energy which contribute to the needs of business for competitively priced energy and cost effective carbon abatement. Federal and State Government policies promoting renewable energy have become a much bigger component of business electricity costs and the Renewable Energy Target (RET) is currently set to expand until 2020. Policy settings in the EWP and the Government's response to the RET Review Panel's report should consider the impacts of these policies on business costs, including through their subsidy cost, impact on wholesale prices, indirect costs and overall pass through into retail prices. They should also consider that small business receives no exemption from such policies, has little control over the costs of the RET on them and cannot access any offsetting benefits that it may provide. Our submission supports renewable energy policies for the EWP which meet the needs of business, including SMEs.
- Energy policy settings that encourage an electricity/gas retail sector that is competitive. As such, it should have access to competitive sources of generation/production, provide competitive retail energy prices, allow the benefits of choice to be maximised, encourage efficient switching and contracting, strike a balance in the needs of small business for some but not unnecessary regulation, and deliver price and service benefits to consumers, including small business. Small business engages with retailers for the supply of electricity and gas, either on a contestable or franchise basis, and the performance of the retail sector is important to small business. The EWP should therefore develop policy settings which are consistent with the needs of small business for competitive, efficient and effective retail supply of energy.
- Policies for the electricity sector which consider the impacts of the turnaround in energy consumption from strong long term growth to declining demand. AEMO is forecasting longer term stagnation in demand and it may be that some policies suited to growing demand are not appropriate for stagnant demand. Business may be affected by continuous declining demand through responses such as a reconfiguration of generation and network capacity, retailer and network utility responses to stagnant demand, moves towards greater use of fixed charges, and greater use of off-grid supply and/or micro networks. These are potentially fundamental shifts in electricity supply and our submission seeks to ensure that the EWP contains policy settings not only to cater for such changes but also to ensure they are suited to the needs of business.
- Policies that assist domestic gas users, including small business, by stimulating gas supply, as well as transparent, open and competitive gas markets. The Australian gas market is going through unprecedented changes, especially the development of LNG exports, which have major implications for domestic gas users, including uncertainty about supply, significant gas price increases and changes in contracting. Small business gas users will be affected by these changes but are disadvantaged compared to larger users in a number of ways, eg, less retail choice, being price takers, greater supply constraints, less influence over contracts, and a lower gas market knowledge and information base. Our submission supports that the EWP consider the impacts of gas market developments on SMEs and their unique position compared to larger gas users.
- Energy policy settings that support strong and effective consumer participation in energy markets, policy and regulatory processes by small business. Recent reforms have elevated the importance of consumer participation in energy market issues but small business participation, whilst increasing, remains limited. Nevertheless, stimulating greater participation is one key to ensuring that small business benefits from energy markets to a greater extent than it has in the past. ACCI is keen to

support policies in the EWP which provide for greater involvement by small business and its representative organisations in energy policy and regulation.

## 1.3 Energy Green Paper Themes & Structure of This Submission

The EGP is structured around four key themes:

- Attracting investment into energy resources
- Putting downward pressure on electricity prices
- Responding to emerging issues in gas supply and development
- Securing reliable and affordable future energy supplies

We recognise the importance of each of these and comment on them in subsequent section of this submission. In each section we begin with a discussion of the theme followed by addressing the goals for each theme outlined in the EGP.

## 2. ATTRACTING INVESTMENT

### 2.1 Discussion

ACCI supports the need for policy predictability and clarity as a means of encouraging investment. The Government should pursue policies that are economically sound and encourage business activity, including in energy. Market based policies structured around ensuring competitive outcomes combined with private ownership and limited interventions are likely to provide the best basis for attracting investment. They are also the most likely policies to encourage productivity and innovation in the energy sector.

We also recognise that Australia is increasingly a player in global energy markets and must therefore provide a more attractive destination for investment in our resources than competing countries. Whilst our rich energy resource endowment, as well as our stable political and legal regimes, provide a certain degree of 'natural' advantage, if this advantage is offset by poor policies and other disadvantages, investment could well be attracted elsewhere. This would be detrimental to our ability to develop our energy resources for both export and domestic use.

ACCI is encouraged that the Government has already taken steps to improve the opportunities for energy related investment in Australia through the removal of the carbon tax and the MRRT, as well as through its *Industry, Innovation and Competitiveness Agenda*. The suite of further policy measures mentioned in Section 1 of the EGP aimed at improving the performance of the economy should also help to make Australia a more attractive place in which to invest.

Nevertheless, ACCI is mindful that:

- The ability of the Government to achieve its aim of attracting more investment into energy resources will be dependent upon the pace and quality of its policies, including its responses to the various reviews underway.
- The aim should be to attract investment that contributes to a more productive and efficient energy sector not investment that is dependent on distortions or subsidies.
- Investment in the energy sector needs to be encouraged across the sector and not just in areas focused on energy exports, as important as this is. Most parts of the economy depend on energy and therefore the EWP should also focus on investment that stimulates productivity and efficiency in parts of the energy supply chain (involving exploration, extraction, production, transportation, sale and end use) oriented more to intermediate use in other parts of the economy. The EWP should recognise this broad need for investment to be attracted across the sector in a way that maximizes its economic potential.

### 2.2 Goals

The EGP sets out a number of goals for the objective of attracting more investment into energy resources. ACCI's response to these is set out below.



## 2.2.1 Streamlining environmental and other approvals

ACCI is strongly supportive of measures that result in the removal of red tape and regulatory duplication, including in the energy sector. Unnecessary regulation acts as a thorn in the side of business, reduces productivity and is a drain on the economy. We note that the Government has been working with state and territory governments to reduce duplication in the approval processes on land and coastal waters through a 'one-stop shop' for environmental approvals. As mentioned in the EGP when such projects are major, such as the development of additional gas supplies, they can have big impacts on the supply of energy.

The EGP proposes that the Federal Government provide technical and administrative help to state and territory Governments and coordinate and monitor Federal and state and territory approval processes. It suggests that this role could also include recommending improvements to approval processes to achieve better results. Whilst ACCI can see the advantages of such an approach, it also notes that states and territories have a sovereign role in the development of such resources. What the EGP proposes does not put this at risk, but the delivery mechanism will be important to ensure the states and territories are involved.

The EGP also discusses the impact that other regulations and standards affecting energy development can have, including those that differ from one state or territory to another. It proposes that the Federal Government review legislation and programs that place an unnecessary burden on business. ACCI supports this but notes the likely importance of state and territory regulations in this rubric, meaning that their co-operation needs to be sought to increase the likelihood of success of such reviews.

We also note the importance of extending a commitment to streamline regulation in the EWP to other parts of the energy supply chain to Australian businesses. We therefore suggest the need for the EWP to encompass a broad spectrum commitment to review and streamline regulations that place a burden on the energy supply chain and energy consumers. The starting point for this could be an inquiry by the Productivity Commission as a basis for government action. The involvement of states and territories is also critical. This could be achieved through the COAG and its Council on Energy.

## 2.2.2 Improving labour productivity and skills

As pointed out in the EGP, the Government has already initiated reforms that will assist labour productivity in the energy sector, including amendments to the *Fair Work Act* and re-establishing the Australian Building and Construction Commission. It has also established a Productivity Commission (PC) inquiry into the *Fair Work Act*.

ACCI is strongly supportive of these initiatives and we intend to participate in the PC inquiry.

The EGP also lists a number of measures aimed at improving skills in the energy sector, including examining skills issues in the oil and gas sectors as they move from construction to production, making the Vocational Education and Training (VET) system more responsive to the needs of the energy sector, the Industry Skills Fund and the recently completed review of 457 visas. We support these reforms and have commented on them in more detail elsewhere. However, we note the importance of recognising that in-house training is an important component of many companies' approach to training for sound commercial reasons and reforms such as to the VET system should complement this and not cut across it.

### 2.2.3 Creating supply chain opportunities

The EGP discusses the supply chain opportunities that the development of our energy resources can have, including for SMEs and indigenous employment. This includes through outsourcing. ACCI supports these goals for inclusion in the EWP, noting that energy resource companies already make extensive use of SMEs through outsourcing and the supply of a range of services to resource development and mining, for example. We also point to the use of the SME structure as a basis for encouraging indigenous participation in the energy resource sector. As mentioned in the EGP, measures such as the Entrepreneurs' Infrastructure Programme and Industry Skills Fund can assist in regard to creating more SME and indigenous opportunities.

SME opportunities could also be improved in other parts of the domestic energy supply chain with potential benefits such as greater productivity, innovation and skills. For example, the SME vehicle can be used to provide a range of engineering, technical and consultancy opportunities in the energy sector. It would be beneficial for the EWP to recognise this.

### 2.2.4 Enhance pre-competitive geo-science & improve access to environmental data

We recognise that the provision of and access to geo-scientific, as well as other scientific data and information can be important to developing our energy resources for both export and domestic use. This, in turn, can assist with the tasks of ensuring the community is well informed about the impacts of such developments and is informed in a way that allows it to better understand complex scientific issues. It is also in the interests of the broader business community to ensure that decisions on developing our energy resources are made on the basis of fact-based reasoning. One key area where this would currently be beneficial is in relation to the extraction of coal seam gas (CSG) and its use of fracking techniques for extraction as this is one issue which is impacting on the development of CSG.

## 2.2.5 Identifying and addressing infrastructure constraints

The EGP correctly identifies an important need for the EWP to include measures designed to help find and alleviate transport constraints in the energy supply chain to ensure that energy supply reaches demand centres in a timely, reliable and efficient way. The importance of this is underpinned by the fact that both electricity and gas in Australia mostly needs to be transported over considerable distances from places where it is produced to where it is consumed.

The Government already has some measures in place which could help to address this including its seven year \$50 billion investment in transport infrastructure and its involvement of Infrastructure Australia in developing a national view on our future infrastructure needs. Nevertheless, the core infrastructure challenges for electricity and gas are perhaps more to do with improving the performance of existing energy transport infrastructure, which suffers from a combination of regulatory problems, poor productivity and government ownership. Some reforms have been made which should help to alleviate part of the regulatory and productivity problems but the task is not yet complete, as noted by the Productivity Commission.<sup>3</sup>

Electricity networks in Victoria and SA were sold or leased to the private sector some time ago. NSW and Queensland have recently initiated proposals to sell or lease most of their government owned electricity networks to the private sector. But this would still leave some or all of the electricity networks in NSW, WA, Tasmania, the NT and the ACT substantially or wholly government owned. The EGP correctly, in our view, sees this as a major issue in need of correction. In this regard we welcome the National Partnership Agreement between the Commonwealth, States and Territories under which the Commonwealth will provide financial incentives for new infrastructure if state and territory owned infrastructure, including electricity networks, is sold or leased. We would urge all states and territories to avail themselves of this initiative. They will benefit financially from doing so and electricity consumers will also benefit through more efficient provision and lower prices, especially if the sale process is not used solely to maximise revenue.

## 2.2.6 Promoting exports

The EGP discusses a range of opportunities including energy services, micro-grid solutions, off-grid renewables, renewables forecasting, coal mine methane extraction, brown coal conversion and coal to liquids technology. There could well be export opportunities in these areas that are worth pursuing but undoubtedly our biggest opportunities remain in the export of energy resources and products/processes which embed energy. The EWP should recognise this and offer a

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<sup>3</sup> See Productivity Commission, Electricity Network Regulatory Frameworks, Inquiry Report, 26 June 2013 at <http://www.pc.gov.au/projects/inquiry/electricity/report>.

framework for dealing with the challenges it presents to domestic energy consumers.

## 3. ELECTRICITY PRICES

### 3.1 Discussion

As pointed out in our submission on the EWP Issues Paper, average electricity prices rose by 70 per cent in real terms from June 2007 to December 2012, thus imposing a major shock on businesses and households. Businesses have been adversely affected by this rapid rise in electricity prices. Impacts have included their budgets being thrown into chaos, profits reduced, having to pass on price rises to their customers, fewer funds for investment, less opportunity to create jobs, competitiveness reduced (especially where they compete in export markets or against imports) and having to scale back on operations (or even contributing to closures).

As the EGP points out, these price increases have come mainly through large increases in network charges, which make up around half of the delivered cost of electricity, the imposition of the carbon tax and subsidies to renewable energy.

- The large increase in electricity prices has also made a major contribution towards Australia losing its cost advantage in energy. A 2012 study comparing Australian household electricity prices internationally and covering 91 jurisdictions showed that Australia had amongst the highest electricity prices. bases of the networks (especially government owned ones) are inflated, there is still further scope for reform of network regulation and the cost base of the networks is not efficient (especially government owned ones).

Figure 1 below shows the results. Yet a few years prior to this, we had been in the middle of the pack and prior to this had been amongst the most competitive. Moreover, it is likely that since 2012 the situation has worsened, especially in Queensland.

It is therefore entirely appropriate that the EGP has made placing downward pressure on electricity prices one of its four key themes. The extraordinary rise in electricity prices in recent years and the need to take corrective policy and regulatory action was a key part of our submission on the EWP Issues Paper.

It is likely that electricity price increases, except for Queensland, have moderated since due to a slower rate of increase in network prices in recent years, the impacts of declining demand for electricity since 2009 and the repeal of the carbon tax.

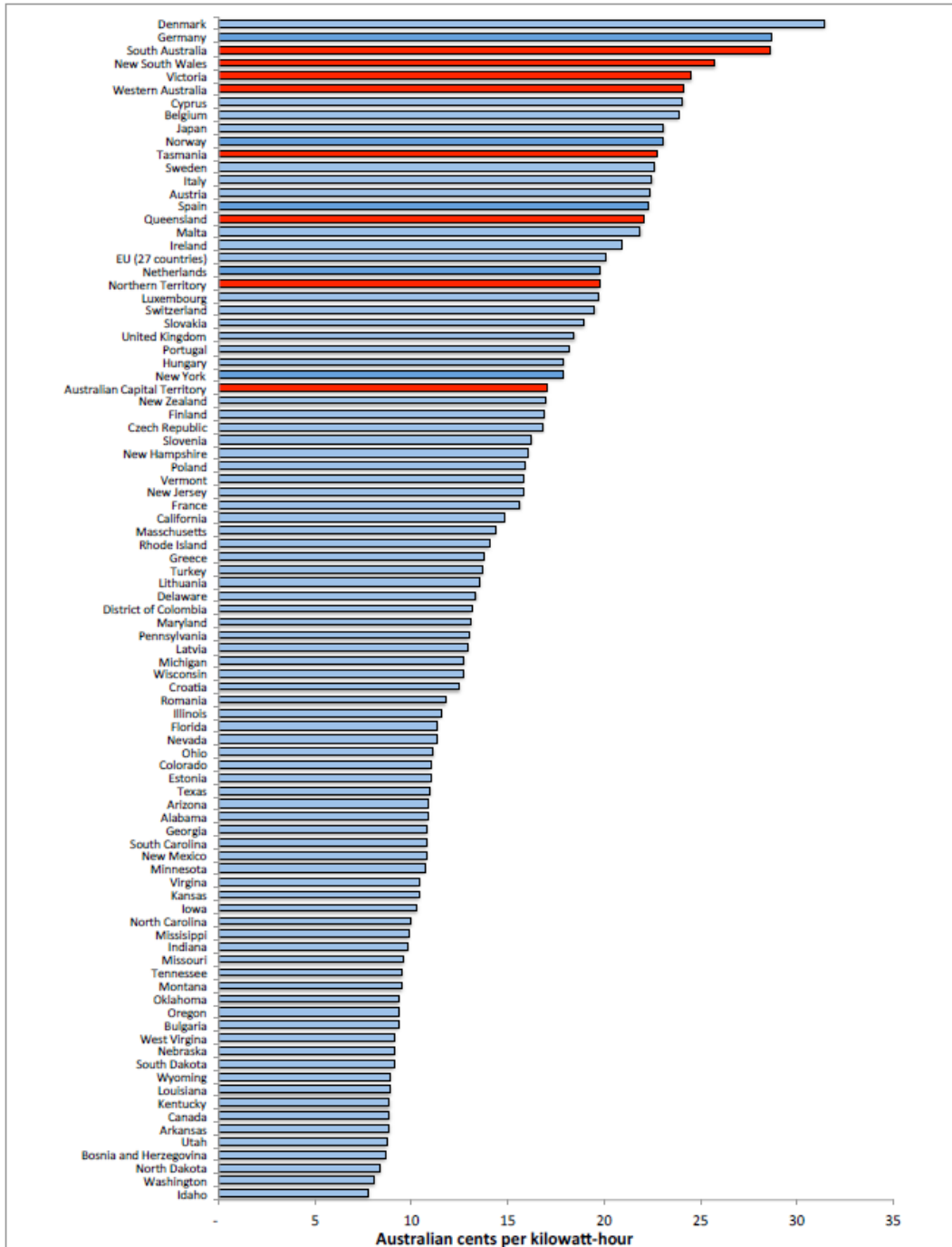
Whilst this is welcome, there are several reasons why energy policy needs to remain focused on placing downward pressure on electricity prices:

- Australia's loss of competitive advantage in energy has been dramatic and unnecessary. It needs to be restored and this requires an effective strategy aimed at reversing the rise in electricity prices.
- The large increases in network charges appear to have stopped for the time being. Recent proposals put to the Australian Energy Regulator (AER) have involved more moderate increases (around CPI) due to a combination of some reforms to the way that energy networks are regulated, some lowering in regulated rates of return,

lower capital expenditure, lower operating expenses, changes in reliability standards and the impact of the political fallout from the large increases of the last five years. However, there is also considerable evidence that the proposals now being put to the AER still contain network prices that are higher than they should be, the asset

bases of the networks (especially government owned ones) are inflated, there is still further scope for reform of network regulation and the cost base of the networks is not efficient (especially government owned ones).

**Figure 1: International Comparison of Household Electricity Prices, 2011<sup>4</sup>**



Source: Mountain, B., *Electricity Prices in Australia: an International Comparison*, a Report to the Energy Users Association of Australia, March 2012 at <http://cmeaustralia.com.au/wp-content/uploads/2013/09/FINAL-INTERNATIONAL-PRICE-COMPARISON-FOR-PUBLIC-RELEASE-29-MARCH-2012.pdf>

<sup>4</sup> Prices for Australian jurisdictions are shown in red.

- One impact of low or negative growth in demand for electricity combined with a rapid escalation in the installation of small scale solar systems has been a decline in the use of electricity networks. This is causing the networks to argue for tariff reform, especially a greater reliance on fixed charges to ensure that they recover their revenue allowances. This could be justified if it applies only to those consumers who have installed small-scale solar. However, if applied more broadly it would increase costs to all consumers who are connected to grid based power.
- The RET is adding substantial additional capacity to an already over-supplied electricity generation sector. Whilst this may place downward pressure on wholesale prices for a time, it is possible that its continuation will ultimately force capacity to be withdrawn from the market. If so, this capacity is likely to be at the low cost end and may well give rise to wholesale price increases.
- Retail competition is critical to electricity consumers being offered competitive retail electricity prices. In the larger states, a combination of three large electricity retailers and numerous smaller ones provide this competition and consumers are gaining access to some significant price discounts. However retailers, especially the larger ones, are also vertically integrated backwards into generation as a means of hedging their exposure to wholesale market risk. This may reduce competition in the market and operate to the disadvantage of smaller (non-vertically integrated) retailers, who often serve an important role in stimulating competition.
- It is welcome that those States that still have electricity retail price regulation are moving to end it. This is being replaced by 'standing offer' prices that contain an element of 'head room' intended to encourage new entrants by giving them an opportunity to offer discounted retail prices. However, the extent of discounting is reliant on the extent to which new entry occurs. In some states, especially smaller ones such as Tasmania, there may be limited new entry and discounting.
- The impact of repealing the carbon tax, whilst very welcome, is a once off impact.

The EWP should carefully consider such matters in developing policy settings to give effect to the theme of placing downward pressure on electricity prices. Some of them could have the opposite effect or compromise that objective.

ACCI considers that the following responses to these issues would help to ensure that the Government's objective of putting downward pressure on electricity prices is realised:

- The EWP contain a clear commitment to restore Australia's competitive advantage in energy.
- The COAG Energy Council undertake an assessment of what other areas of network regulatory reform could assist with the objective of putting downward pressure on electricity prices. It should also obtain regular reports from the Australian Energy Market Commission (AEMC) and AER respectively on emerging pressure points that may need attention and to ensure that the next round of regulatory determinations is contributing to the goal of downward price pressure.
- The COAG Energy Council should ensure that any changes to the structure of network tariffs are consistent with placing downward pressure in electricity prices.
- The Federal Government's forthcoming decision on the RET review should contribute to the objective of downward price pressure.
- The COAG Energy Council should satisfy itself that retail pricing and competition issues will not become an impediment to downwards electricity price pressure. The Productivity Commission could be asked to inquire into these matters.



## 3.2 Goals

The EGP sets out a number of goals for the objective of putting downward pressure on electricity prices. ACCI's response to these is set out below.

### 3.2.1 Tariff reform and improved consumer access

The EGP argues for tariff reform so that electricity prices are more reflective of the costs of providing power to consumers based on their usage patterns and time of use. ACCI supports this principal and recognises that flat tariffs and simple two-part tariffs embody an element of cross subsidy from those who use less to those who use more electricity, as well as from those who consume less at peak times to those who consume more. This also tends to work against the more socially disadvantaged sections of the community. Many SMEs do not consume most of their power at peak times, although some do use significant amounts of power at peak times, e.g. hotels, bars and restaurants.

ACCI also recognises that the introduction of more cost reflective tariffs will ultimately be of benefit to all consumers as there will be less need to keep augmenting electricity generation and networks to meet peak times as price signals will help to lower peak consumption.

However, ACCI is concerned that the introduction of cost reflective tariffs not be used as a way to increase the revenue of the electricity network businesses or retailers. This partly stems from the fact that cost reflectivity is open to a wide range of interpretations some of which can be used to disadvantage consumers, especially ones that are not well informed. As noted in the EGP, in the case of some consumers their ability to change consumption patterns may also be constrained by their business operations. This certainly applies to SMEs operating in areas such as cafes, restaurants, shops, hotels and supermarkets.

ACCI believes that SMEs need to be involved in moves to restructure tariffs so that their issues can be considered. We welcome that transparency of tariff changes and stakeholder consultations are integral to the AEMC's proposals on tariff reform.

As mentioned in Section 3.1, we do not unreservedly support proposals by the networks to restructure their tariffs so that they contain a larger fixed component. Whilst we recognise that the significant roll out of small scale solar installations has reduced the use of network assets and forces consumers without such installations to subsidise those who have them, it would be inappropriate to force all grid based consumers to pay higher fixed charges as result. We could only consider supporting such a proposal if it were confined to consumers with solar installations.

We agree with the EGP that tariff reform needs to be accompanied by the introduction of smart meters if consumers are to respond to such reform and take advantage of the opportunities it creates (or to help them avoid the risks of paying more for their power). Consistent with the EGP, we support the provision of such

meters on a contestable basis and by allowing consumers to elect to install such a meter. This will help to ensure that the costs of meters are kept as low as possible and give consumers the best chance to benefit from their introduction.

The applicability of smart meters to smart grid opportunities is also mentioned in the EGP. Whilst we recognise that the adoption of smart grid technologies can work to the benefit of consumers, including SMEs (e.g., improved reliability and energy management), as well as network operators, the costs of smart grids need to be seen relative to the benefits. Whilst some of the opportunities and benefits are likely to increase over time, we are particularly wary of proposals that would force consumers to pay for the introduction of smart grid technology by monopoly networks. Consumers need to be closely engaged in any such proposals.

ACCI supports the Government's desire to improve the access consumers have to data on their energy use, including instant online access. We note that this could help SME's to achieve energy savings, some of which could come at little or no cost (e.g. shifting usage patterns or determining where energy is being wasted). However, we note that consumer inertia and time constraints may impede this quest.

We support the use of sensible initiatives that increase the demand management opportunities available in our electricity markets, provided the benefits of these exceed their costs. Initiatives emerging from the AEMC's *Power of Choice* review should be seen in this regard.

We note that the COAG Energy Council will conduct a scenario-based assessment of the challenges and risks facing Australian electricity networks over the next two decades, testing the adequacy of the current economic regulatory framework, with findings to be considered in mid-2015. ACCI believes that it is important that business, including SMEs, are involved in this work given the importance of network prices to their operations.

### 3.2.2 Consumer engagement and advocacy

As pointed out in our submission on the EWP Issues Paper, we believe that regular, strong, sound and representative consumer participation in energy markets and energy policy decision making is fundamental to successful energy reform. We welcome that the EGP has recognised the need for a more strategic and long-term approach to national advocacy for energy consumers, including small business. This is consistent with our earlier submission.

It has been agreed to establish a national energy consumer advocacy body (Energy Consumers Australia) by 1 January 2015. The body will work in cooperation with all stakeholders, including industry and energy consumer advocates, on national energy market matters of strategic importance or material consequence for energy consumers, in particular for residential and small business customers.

We also welcome the EGP comment that:

*The COAG Energy Council will continue to develop the proposal to increase the consumer voice in national energy market matters, particularly household and small business consumers. (p. 31)*

In our previous submission we raised some issues to do with the establishment and role of the new consumer advocacy body, Energy Consumers Australia, noting that:

- It must have close ties to and work with consumers and consumer advocates.
- It should not be a substitute for, or prevent funding of, bodies that directly represent consumers. Direct funding must be encouraged and continue to play a substantial role in advocacy.
- Direct funding for advocacy on behalf of small business by representative bodies should continue to be supported as small business is highly dependent on such funding to ensure its participation. We also referred to the important progress that has recently been made in increasing small business advocacy on energy issues, including by ACCI, and the need to ensure that this continues and increases.

Having considered the matter further, we also believe that small business would benefit from a greater role for research on small business energy issues as part of advocacy funding. It has become apparent that the knowledge base on small business energy issues is lacking and that this is an impediment to its participation and advocacy. This should also involve direct funding of representative bodies.

We also maintain our earlier call for small business to be included in various standing and *ad hoc* energy committees.

### 3.2.3 Reliability standards should reflect consumer preferences

ACCI recognises the importance of network reliability. Most businesses, including SMEs, are highly dependent on a continuous supply of electricity and gas to function. Moreover, they do not typically have ready access to back up supply and make infrequent use of self generation via small scale renewables.

We also support reforms, such as those proposed by the AEMC, to tie reliability standards more closely to the willingness of consumers to pay for it, as well as to include greater transparency and consumer participation in the setting of reliability standards. One significant concern for business is that higher reliability standards have been a significant driver for additional expenditure by the network businesses, which has been passed on to consumers through network tariffs.

Nevertheless, ACCI is concerned that progress in this area has been slow and that consumers may not see the benefits of reforms until the beginning of next decade. We would therefore support efforts by the COAG Energy Council, alluded to in the EGP, to accelerate the implementation of an improved approach to reliability. This

should include the application of negative cost pass throughs during current regulatory periods where changes in reliability standards reflect this. This will allow consumers to benefit from reforms sooner.

### 3.2.4 Using electricity more efficiently

The commercial imperative for businesses to use energy more efficiently is to save on costs. Whilst the price of energy is an important factor in business decisions on how they use energy, the commercial incentive for them to use less resources (including energy) goes beyond this to the pursuit of greater business efficiency. This underlies the long track record of Australian businesses achieving substantially greater energy efficiency even when they enjoyed lower energy prices.

ACCI supports the pursuit of greater energy efficiency by Australian business where this is commercially sound. The role for government policy should be to support this pursuit and overcome proven market failures that may be preventing an optimal pursuit of energy efficiency. Government intervention should not add unnecessary green tape or get in the way of business decision making. This should be reflected in the EWP's approach to energy efficiency.

Unfortunately, the overall track record of energy efficiency schemes in Australia is not good. Too many of these schemes have imposed undue costs on business, have not adequately addressed proven market failures, have over-ridden commercial decision making, have been poorly targeted and have had unintended consequences. The EWP should avoid such outcomes in future.

One recent example is the application of state-based 'white certificate' and other mandated target schemes in NSW, Victoria and South Australia. These suffer from many of the problems mentioned above. The EGP observes that Victoria has recently closed its scheme due to rising costs and energy bill impacts.

For small business, actions to improve energy efficiency are often hindered by their lack of knowledge, time and resources. Government initiatives to help overcome this, including in collaboration with energy retailers, networks and energy service providers, would be worthwhile considering as practical means of boosting energy efficiency in the SME sector. We note that the EGP mentions some of the energy efficiency constraints facing small business and the role that decision-making tools could play in overcoming these. This is welcome and could usefully be extended to cover support to broaden the reach and scope of energy supplier initiatives, training through industry bodies and the like.

Whilst the EGP discusses these matters in relation to electricity, we note that they also have applications in relation to greater efficiency in the use of gas.

Finally, we note the mention of demand management in the EGP. Whilst some demand management does not save energy *per se*, it does allow energy to be used more efficiently by changing when it is used, thus lowering its cost and the need for

investment in energy infrastructure. There is also mention of the role that demand side aggregation can play in opening up opportunities for SMEs. We support greater involvement of SMEs in demand management through aggregation as this can overcome known market failures that hinder SME participation. It would be useful for the EWP to support this.

### 3.2.5 Rationalise emission reduction schemes

Emission reduction schemes, including the now repealed carbon tax, the RET, state solar subsidies and energy efficiency schemes, went from a negligible impact on electricity bills ten years ago to 16 per cent of bills in 2012/13. Excluding the carbon tax, they still accounted for 7 per cent of bills. They therefore have a significant impact on the electricity costs of business, including SMEs. Moreover, the preponderance of such schemes across jurisdictions has also been an issue for business by adding to their costs and imposing costs on business which they have no way of avoiding or mitigating (e.g. SRES and solar bonus costs are imposed on business but they very limited options to offset these).

Whilst many jurisdictions have made decisions to remove or reduce the impact of such schemes, they remain of concern to business (e.g., there are legacy arrangements in place for solar subsidies, the appetite to install solar on residential roof tops remains significant).

Therefore, we would welcome additional federal, state and territory initiatives to rationalise, reform or remove emission reduction and energy efficiency schemes. In our view, such changes also need to recognise the limited ability of business to mitigate the cost impacts of small-scale solar subsidies.

Finally, the EGP mentions that the Federal Government is expected to shortly respond to the recommendations of the RET Review, which supported significant reforms to the RET that would lower its costs. We would welcome a Government decision to reform to the RET which lowered the costs it imposes on business and the broader economy. We note discussion that certain electricity intensive industries may obtain full exemption from the RET. We fully understand that the RET has significant impacts and risks for them but, if such exemptions are granted, they should be netted off whatever RET target is agreed to so that other electricity consumers are not left any worse off. Our recommendations to the RET Review are contained in our submission, which was supported by extensive economic modelling.<sup>5</sup>

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<sup>5</sup> This modelling showed that the RET could cost the economy up to \$28 billion and 5,000 jobs by 2030. See Deloitte, *Assessing the Impact of the Renewable Energy Target*, report to ACCI (lead sponsors), Business Council of Australia and Minerals Council of Australia, 23 July 2013 at <http://www.acci.asn.au/Research-and-Publications/Research/Submissions>.

### 3.2.6 Remove unnecessary regulatory burdens

We welcome that the Government has already taken important steps to reduce the regulatory (and cost) burden on energy consumers through repeal of the carbon tax. Its red tape reduction strategy should include energy markets. However, noting that national arrangements and the states and territories play an important role in the regulation of energy markets, it would be beneficial to business if the COAG Council on Energy and individual jurisdictions also played a role in reducing regulatory burdens and reforming energy regulation. This was a key part of our earlier submission on the EWP Issues Paper and we welcome its inclusion in the EGP.

We listed the following as worthwhile aims for regulatory reform 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 COAG Energy Council, 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.

The EGP discusses some specific areas where reform might contribute to the goal of lifting unnecessary regulatory burdens.

As outlined in our earlier submission, we strongly support the need to privatise existing government owned electricity networks, retailers and generators. These have been a disproportionate source of the rapid rise in network charges without adequate justification and there is sound evidence pointing to inefficiency and waste in their operations, including the Productivity Commission's report on energy network regulation.<sup>6</sup> As mentioned earlier in Section 3.2, we welcome the Government's Asset Recycling Initiative as an inducement for states and territories to sell or lease their electricity assets.

Whilst the EGP discusses some of the pros and cons of the vertical re-integration of retailers and generators that has occurred in many states, it offers no response.

In our earlier submission to the EWP process, we also raised this matter along with several others to do with the retail sector that are important to business consumers, namely:

- The dominant position of the three largest retailers in most NEM regions and their impact on smaller ones. WA, Tasmania and the NT also have dominant retailers.
- The even greater dominance of major retailers in gas.
- The lack of full retail competition in most of regional Queensland, WA and the NT.

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<sup>6</sup> Productivity Commission, Electricity Network Regulatory Frameworks, Inquiry Report, 26 June 2013 at <http://www.pc.gov.au/projects/inquiry/electricity/report>.

- Retail price regulation, including for small business, in NSW, Queensland, WA, Tasmania and the NT.<sup>7</sup>

We suggested that 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 and should involve the States and Territories through the COAG Energy Council.

We note that the draft report of the Competition Policy Review includes some suggestions for ongoing reform of the electricity market but, beyond the issues of full application of the national energy retail arrangements and the removal of retail price regulation, does not deal with the issues mentioned above. We support the Review's further consideration of the matter of the health of competition in the energy retail sector and intend to draw this to the attention of the Review Panel.

We also note that the Review's draft report has proposed the adoption of a modified effects test to consider market power issues under s. 46 of the *Competition and Consumer Act*. This could help to safeguard competition in the energy sector, but ACCI will respond to the broader implication of this proposal in its submission on the Draft Report.

The EGP addresses the matter of the impact of regulatory schemes, such as the RET, on resource allocation. Notwithstanding any impacts which the RET may have in putting downward pressure on wholesale prices in an electricity market with low or negative growth in demand, it will still distort the allocation of resources in the sector (the extent to which it does this would intensify in a declining market). This imposes costs on the economy (including business).<sup>8</sup> The EWP should consider these impacts and develop strategies to deal with them.

The EGP outlines a number of reasons why existing thermal generators may delay exiting the market in response to the RET (e.g., low marginal costs, high sunk costs, uncertainty about the future of demand, uncertainty about the future of the RET). However, we have little doubt that some will eventually have to exit the market in the face of the combination of low wholesale prices, stagnant demand and excess capacity brought on by the RET. When this happens wholesale prices may well rise again.

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<sup>7</sup> NSW has announced the removal of price regulation and Queensland also intends to remove it from south-east Queensland.

<sup>8</sup> As mentioned earlier, modelling showed that the RET could cost the economy up to \$28 billion and 5,000 jobs by 2030. See Deloitte, *Assessing the Impact of the Renewable Energy Target*, report to ACCI (lead sponsors), Business Council of Australia and Minerals Council of Australia, 23 July 2013 at <http://www.acci.asn.au/Research-and-Publications/Research/Submissions>.

## 4. GAS SUPPLY & DEVELOPMENT

### 4.1 Discussion

Our submission on the EWP Issues Paper drew attention to the dramatic changes taking place in gas markets, including on the eastern seaboard, and the implications for gas users, including SMEs. Gas is an important input to many industries, albeit not as pervasive as electricity. Many of the uses to which gas is put by industry also have limited substitutability, making them highly reliant on competitively priced and reasonably available gas supplies. Many such industries have based their development and continued presence in Australia on continued access to competitively priced gas. The likelihood of significant rises in the price of gas, perhaps combined with less reliable supply in future, is naturally of significant concern to gas users, especially in gas reliant industries. The use of gas as a significant fuel for generating electricity is also an important issue for business beyond just those industries using gas as a source of energy or feedstock.

We therefore welcome the attention that gas markets have received in the EGP.

Our earlier submission did not favour intervention in the gas market by governments to reserve some gas for domestic use or to control gas prices for domestic use. The submission pointed out that such policies could well fail to achieve their objectives of ensuring domestic gas users have access to gas at a competitive price and may also have contrary impacts. We favoured instead providing access to gas for domestic users at the most competitive price possible through the use of policies that stimulate gas supply and are based on competitive, open and transparent gas markets. ACCI continues to hold this view and notes its consistency with the approach advocated in the EGP. In our earlier submission, we listed a range of specific measures that could be used to support such a policy approach. We welcome that many of these are also mentioned as policy goals in the EGP.

### 4.2 Goals

The EGP sets out a number of goals for addressing the issues around gas supply and development. ACCI's response to these is set out below. At the outset it is worth stating that many of the matters raised in the EGP are consistent with ones we raised in our initial submission responding to the EWP Issues Paper.

#### 4.2.1 Bring on more gas supplies

ACCI sees the need to encourage the development of additional gas supplies as critical to the important objective of ensuring that domestic gas users have adequate supplies for their needs, can readily gain access to these when they need them and are able to leverage supplies off a competitive gas market. However, a concern we have is that any additional supplies will be used to supply, or shore up, LNG for export.



As already mentioned, consistent with the Government's approach, we do not favour interventions to support gas supply to domestic users but believe that the Government (including through the COAG Energy Council) needs to actively monitor the gas market to ensure that additional supplies are forthcoming and are not being hoarded. If supply constraints persist, there needs to be a preparedness to adjust policy and regulatory levers to help deal with such problems. Given the lead times that are involved in bringing on new supplies, this is a complex issue which ideally requires advance warning. Queensland previously had a Gas Commissioner in place to deal with such matters and a similar role could be considered nationally.

The EGP contains a number of useful suggestions to help facilitate additional supplies of gas which we support:

- Improvements to licence management policies and removal of unnecessary barriers to supply.
- Facilitate the approval of priority gas projects.
- Preparation of a strategy to support the responsible development of CSG.

Obstacles to developing the substantial CSG supplies that exist in NSW have been of particular concern to gas users. Many of these are to do with land use, water table, and environmental issues, and other regulatory hurdles such as licensing and planning restrictions. Progress has also been thwarted by a lack of good factual information, poor communications and a lack of balance in reporting. We recognise and support that the NSW Government is attempting to deal with such issues, but the lack of progress in developing gas reserves continues to frustrate gas users.

## 4.2.2 Gas prices need to be more transparent

ACCI echoes the need expressed in the EGP for greater price transparency in the gas markets around Australia. We believe that this reflects a combination of disclosure restrictions in existing contracts, the commercial confidentiality concerns of contracting parties, the bilateral nature of most gas contracts, the involvement of gas producers in LNG export projects and a lack of competition in gas markets. Notwithstanding some improvements such as the development of short term trading markets, the Wullumbilla gas trading hub and pipeline capacity bulletin boards, there remains a lack of adequate price transparency compared to the National Electricity Market (NEM) and this is an impediment to efficient contracting and price disclosure.

As the EGP points out, users are more adversely affected by the lack of price transparency than producers and retailers given the latter are intimately involved in gas supply. We concur with the EGP in regard to the impacts of price and supply uncertainty on the willingness of sellers to contract, the possibility of market power amplifying price adjustments, the lack of accurate supply information available to market participants and the impact that joint marketing activities, authorised by the ACCC, can have on pricing of gas. These disadvantages are even more acute for

SME's who have limited knowledge of gas markets, do not have the time or resources to improve this and have less scope to negotiate gas contracts.

We note and support the points in the EGP aimed at addressing some of these matters including:

- Initiation of an ACCC or PC inquiry into competition in the eastern gas market. On balance, we believe that a PC inquiry is preferred as this provides for the broadest possible remit, is arms length from the CCA issues involved, such as joint marketing and mergers, and leverages off the PC's skills and experience in industry reviews.
- Regular updates on Australia's gas markets, including aggregated information on upstream activity, and CSG well drilling schedules and production rates.
- Enhancing the National Gas Market Bulletin Board and improved projections on reserves, production, storage and adequacy of supply in the Gas Statement of Opportunities (GSOO) by 2015.

However, we also recognise that gas users need to adjust to the new circumstances they face and can take steps to make this adjustment easier, including:

- Negotiating directly with upstream providers or investing in upstream gas.
- Making use of short term trading opportunities.
- Establishing in house gas market expertise.
- Making use of external gas market experts and information.

Clearly there are obstacles to SME's doing so, including smaller expenditure on gas and the costs to the business of taking such steps. However, there may be ways to assist small business in being able to access such opportunities, such as by spreading the costs through the involvement of their associations and/or through government support.

### 4.2.3 Improve the functioning of the gas market

The EGP identifies a number of approaches that could be used to ensure that gas markets function more efficiently, namely, greater use of trading hubs and pipeline capacity trading, increased use of storage facilities and strengthening gas market governance framework through the Gas Market Development Plan. It proposes to use a longer term gas market agenda to promote an efficiently operating market. ACCI is supportive of such initiatives which could help to address our concerns about gas supply and prices.

## 5. ENERGY SECURITY, INNOVATION & PRODUCTIVITY

### 5.1 Discussion

The price pressures that business has and is experiencing in electricity and gas continue to be our main concerns. However, ensuring that our energy supplies are secure is also a significant issue for business. To date, apart from some irregular (and for the most part short term) events that have disrupted supplies of energy (e.g., loss of natural gas supplies at Longford in Victoria, Moomba in SA and Varanus Is in WA, occasional major electricity outages and disruptions to liquid fuel supplies), Australia has enjoyed access to a very high level of energy security. Australian businesses have benefitted from this.

Nevertheless, this is not a guarantee of continued energy security and the EGP correctly identifies potential near-term shortages in east coast gas supply and national liquid fuels refining capacity as “watch-points”.

We also agree with the EGP that:

- There needs to be a focus on coal, as our largest source of fuel for electricity, but with the likely challenge of producing large amounts of greenhouse gases necessitating large amounts of future investment in lower greenhouse gas emitting technologies in a market that is currently oversupplied.
- That gas for power generation offers lower greenhouse gas emissions but faces the difficulty of likely significant increases in its price, making it less economic with supplies that are increasingly directed at LNG exports. Nevertheless, the types of policies outlined in Section 4.2 could be used to mitigate somewhat the impacts of more export oriented gas supplies on domestic gas use, including power generation, in terms of both prices and continued access to gas supplies.
- That renewable energy will play a role in our future energy mix which, in combination with the likely development of storage technologies, should help to overcome one of the main reliability issues of renewable energy, namely its intermittent nature. However, it will be important that government support for renewable energy and storage be both soundly and efficiently directed where it can serve its best economic and environmental purpose, and avoid ‘taxing’ consumers.
- Nuclear energy should remain in consideration as a long term source of electricity generation. As the EGP points out, it remains a contentious technology but it also continues to be used by many overseas countries, is undergoing somewhat of a renaissance in some countries following the setbacks of the Fukushima incident and its safety is being improved through the adoption of new generation technology, smaller-scale nuclear plants and attempts to develop the use of thorium as an alternative fuel. However, Australia is well behind in the adoption of nuclear power and, given the very long lead times needed to adopt it, if nuclear is to be seriously considered for future use, contingencies would need to be made so that any future adoption is not unduly delayed by a lack of preparedness and infrastructure. This includes possible site selection, skills, monitoring, testing, safety and waste disposal. Community engagement to improve understanding and knowledge of nuclear energy would also be needed. ACCI sees the possible adoption of nuclear energy as challenging but not insurmountable as its long standing and continued use overseas

attests to. If circumstances dictate that we have little choice but to use nuclear, e.g., because of greenhouse gas mitigation pressures, it would be better to have prepared some of the ground.

- It will often be more economical to adopt changes in energy technology that come from abroad but Australia also needs to play some role in developing energy technologies given its reliance on energy. If Australia is to again use energy as a source of competitive advantage, it could be beneficial for it to take the lead on some technological developments where it supports its aims. The development of technologies that lower greenhouse gas emissions from coal and gas is one example.
- The development of energy technologies can also usefully be assisted through partnerships between government and industry, investment in pre-commercial R&D, and adapting technologies to Australian conditions. This should support the other goals of the EWP, including putting downward pressure on energy prices, supporting gas market developments, reducing greenhouse gases, reducing red tape where it impedes energy technology and energy security.
- Energy productivity should build on our past track record of improvement in the efficiency of energy use by businesses, households and governments. However, it should do so in a way that supports commercial drivers as the main and most economically efficient pathway to greater energy efficiency. This was covered in more detail in Section 3.2.4.
- However, the productivity of energy is also significantly impacted by its cost and the efficiency with which it is provided to energy users. As pointed out in our earlier submission, research shows that the productivity performance of the electricity industry, especially the network businesses that make up half of the cost of energy to consumers, has been very poor. This applies particularly to government owned networks. It greatly contributes to the increasing price of electricity and, as pointed out in Section 2.2, unless it is addressed further, will work against maximizing the downward pressure the Government is seeking to place on electricity prices.

## 5.2 Goals

The EGP sets out a number of goals for addressing the issues around energy security, innovation and productivity. ACCI's response to these is set out below.

### 5.2.1 Reliable energy supply

Many of the points relevant to the goal of reliable energy supply have already been made in Sections 2.2, 3.2 and 4.2. However, we have not previously addressed the matter in relation to transport fuels. These are important to business through direct use and in supply chains.

Regarding Australia's IEA obligations, we note that Australia relies solely on the commercial stockholdings of industry, which currently stand at less than 60 days of net imports, to meet its obligation.<sup>9</sup> *Prima facie*, we are not attracted to government-controlled or mandated stocks in excess of the commercial levels currently held by industry to meet this obligation. We believe that the modern oil

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<sup>9</sup> Australia is required to hold stocks (equivalent to 90 days of prior year's net imports), which can be released as part of an IEA-agreed collective action in the event of supply disruptions.

market in the Asia–Pacific has changed since Australia joined the IEA and this lessens risks. In addition, Australia’s declining oil production suggests a need to review the obligation. If the Government wishes to increase the stockholding beyond commercial levels, it should compensate companies for doing so.

Beyond this, the EGP also mentions the role that alternative transport fuels, such as CNG, LNG, ethanol, biodiesel and electric vehicles, could play in diversifying Australia’s transport fuel security, though we agree that, to be considered, these should successfully integrate into the broader transport fuel market by being secure and reliable in supply, meet requisite fuel standards, and deliver on consumer needs.

## 5.2.2 Improving energy productivity

Many of the points relevant to the goal of energy productivity have already been made in Sections 2.2 and 3.2.

However, this part of the EGP also raises the prospect of a National Energy Productivity Plan. Such a plan could provide a useful addition to the EWP provided it contains useful and cost effective initiatives. On this basis, candidates for inclusion could be informative energy labelling (stationary and transport), dissemination of information about energy efficiency and economically beneficial energy standards.

## 5.2.3 Better energy outlook capacity

The proposal to develop a capacity to provide better energy outlooks is supported, recognising that this is also part of other goals discussed in Sections 2.2 and 4.2 of this submission.

## 5.2.4 Preparing for future energy sources

Several of our responses to issues addressed under this goal have already been covered in Sections 2.2, 3.2 and 4.2.

ACCI supports the principal that it will be important to promote the development of a diversity of energy sources in order to ensure energy security. However, this needs to be balanced against two other important considerations: the fact that Australia has significant supplies of energy resources (coal, gas, renewables and uranium), which provide an underpinning to our energy security and these should form the basis of future supplies of energy as much as possible; and related to this that we should seek to promote a reliance on energy that is as low cost as possible, as this will best support a productive and competitive economy.

We note that over \$1 billion will be spent on renewable research, demonstration and deployment projects. This is a significant commitment by the Government to

the development of renewable resources. The Government is also funding \$247 million for CCS work, including proving up storage sites, a significant issue in the development of CCS as a viable technology.

The EGP also addresses the matter of alternative transport fuels in the context of energy security, including advanced biofuels, hydrogen vehicles, sustainable aviation fuels, CTL and Gas to Liquids (GTL) technologies. It proposes to address any regulatory barriers to uptake, including inconsistent state and territory rules. Whilst this could be important, we note that other barriers to uptake could also emerge (e.g., technological, logistical) to the serious development of alternative transport fuels and the EWP could usefully address these possibilities. Of course, Australia should also seek to leverage off relevant technological developments overseas.

We support the proposal in the EGP for a flexible research system that can be mobilised to deal with emerging priorities, supported by improved advisory mechanisms. Nevertheless, it would be useful if the EWP could outline how this will work and the types of arrangement involved.

The notion that regulation and legislation needs to support the development of future energy technologies, but not impede it, is also a useful goal for the EWP given the need for some regulation to ensure responsible development attuned to community concerns. We note that this is particularly important in areas such as CSG, CCS and nuclear energy, where the regulatory infrastructure will need to play an important part in responsible development of these technologies.

ACCI supports that the entities managing and regulating Australia's energy markets need to have the skills to deal with all energy sources and new energy technologies. The EGP highlights that the \$476 million Industry Skills Fund will help to do this. ACCI notes the importance of engaging and making use of industry to help ensure efficient delivery and of including energy end-use efficiency in this task.

## 5.2.5 International collaboration

Given the Australian is reliant on energy it makes sense to focus on international collaboration in energy technology, including with countries or international forums focused on complimentary energy technologies. This can help to provide cost effective technological solutions to problems, can speed up developments and avoid wasting resources (e.g., re-inventing the wheel). We note that Australia is currently involved in multiple forums and support the Government's intention to rationalise these commitments by focusing them on areas providing the most benefit to us, and to ensure that international agreements do not impose barriers to development, deployment and trade in energy technology.

# ATTACHMENT: ACCI MEMBERS

## ACCI CHAMBER MEMBERS:

ACT AND REGION CHAMBER OF COMMERCE & INDUSTRY **BUSINESS SA** CHAMBER OF  
COMMERCE NORTHERN TERRITORY **CHAMBER OF COMMERCE & INDUSTRY**  
**QUEENSLAND** CHAMBER OF COMMERCE & INDUSTRY WESTERN AUSTRALIA **NEW SOUTH**  
**WALES BUSINESS CHAMBER** TASMANIAN CHAMBER OF COMMERCE & INDUSTRY  
**VICTORIAN EMPLOYERS' CHAMBER OF COMMERCE & INDUSTRY**

## ACCI MEMBER NATIONAL INDUSTRY ASSOCIATIONS:

ACCORD – HYGIENE, COSMETIC AND SPECIALTY PRODUCTS INDUSTRY **AIR**  
**CONDITIONING & MECHANICAL CONTRACTORS' ASSOCIATION** AUSTRALIAN  
BEVERAGES COUNCIL **AUSTRALIAN DENTAL INDUSTRY ASSOCIATION** AUSTRALIAN  
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**AIRLINES OPERATIONS GROUP** AUSTRALIAN MADE CAMPAIGN LIMITED **AUSTRALIAN**  
**MINES & METALS ASSOCIATION** AUSTRALIAN PAINT MANUFACTURERS' FEDERATION  
**AUSTRALIAN RETAILERS' ASSOCIATION** AUSTRALIAN SELF MEDICATION INDUSTRY **BUS**  
**INDUSTRY CONFEDERATION** CONSULT AUSTRALIA **HOUSING INDUSTRY ASSOCIATION**  
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MECHANICAL SERVICES ASSOCIATION OF AUSTRALIA (THE) **NATIONAL BAKING**  
**INDUSTRY ASSOCIATION** NATIONAL ELECTRICAL & COMMUNICATIONS ASSOCIATION  
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**INDUSTRIES ASSOCIATION** PRINTING INDUSTRIES ASSOCIATION OF AUSTRALIA  
**RESTAURANT & CATERING AUSTRALIA** VICTORIAN AUTOMOBILE CHAMBER OF  
COMMERCE