

Federal Government Takes Next Step In Energy Review

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In brief: *The Federal Government has issued a Green Paper to inform the preparation of its Energy White Paper, which is due for release by the end of 2014.*

How Does It Affect You?

- The Green Paper provides an indication of the Government's current thinking on the strategic issues facing Australia's energy sector and the policy direction it intends to follow in seeking to address those issues.
- The policy settings that are developed through the Green Paper process, and the subsequent preparation of the Energy White Paper, will have important and long lasting implications for future investment in Australia's energy sector, future electricity prices, future gas market supply and gas market development, as well as the country's long-term energy security and its capacity to promote more energy diversity and innovation.
- The Green Paper provides an opportunity for stakeholders to influence these policy settings by making submissions on the policy directions outlined in the paper. Submissions are due by 4 November 2014, and the Energy White Paper is expected to be released in late 2014.

Background

The Federal Government has committed to producing a new Energy White Paper by the end of 2014. The last Energy White Paper was released by the previous Labour Government in 2012, and, despite the relatively short time elapsed, there have been material changes since then in terms of both the market environment and policy orientation.

According to its Terms of Reference, the aim of the Energy White Paper is to outline a coherent, integrated and efficient regulatory and policy framework, stimulating sustainable growth, building community confidence in environmental safeguards and growing investment in the energy sector. This is intended to maintain downward pressure on costs while delivering greater certainty and security in supply.

Preparation of the White Paper is being led by the Department of Industry. The process commenced with the release of an Issues Paper in December 2013, in response to which the Government received more than 250 submissions from a wide cross-section of stakeholders and the community. The release of the Green Paper represents the next step in the process.

Overview

The Green Paper is organised around four key themes, which are said to emerge from submissions received in response to the Issues Paper, as well as consultation on the Eastern Australian Domestic Gas Market Study. These four themes are:

1. Attracting investment – improving regulation, skills, labour productivity and supply chains to make Australia a preferred investment location.

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2. Putting downward pressure on electricity price rises – driving regulatory and market reform to constrain future price rises, and increased competition and consumer choice.
3. Gas supply and market development – bringing on more supply, an industry development strategy for unconventional gas, as well as further work on an overall gas market development plan.
4. Future energy supply – securing reliable and affordable energy in a technology-neutral way that could also help to lower emissions.

The Green Paper provides an overview of the existing energy policy programs and commitments in each of these areas, indicates the broad direction of reform, and highlights the way in which other government programs, processes and reviews currently underway may impact on, or interact with, the key themes. These include the Warburton Review of the Renewable Energy Target, the Harper Competition Policy Review, and proposed labour market reforms, among a number of others.

For each of the four key themes, the Green Paper identifies the goals that the Government believes should shape policy and sets out the actions the Government is currently pursuing or which are proposed to advance those goals. It invites comments on ways the goals could be achieved.

For the most part, the Green Paper provides an indication of the direction of reform rather than specific new policy proposals. The following provides a high-level summary, focusing in particular on areas where new initiatives have been flagged.

Attracting Energy Resources Investment

The Green Paper highlights the importance of Australia's energy resources in underpinning domestic energy supply and the country's position as a major energy exporter. The paper outlines the potential for future growth across the key areas of coal, uranium, offshore oil and gas, coal seam gas (in particular, its important role in meeting Australia's LNG export commitments), and Australia's renewable energy resources, including wind, solar, geothermal, hydro, wave, tidal and biomass.

The following goals are identified as being critical to attracting future energy resources investment:

- Streamline environmental and other approvals.
- Better skills and workforce productivity, including access to skilled migration.
- Create supply chain opportunities and Indigenous employment.
- Enhance pre competitive geoscience and improve environmental data.
- Help to identify and address infrastructure bottlenecks.
- Promote Australia's energy products, technology and services exports.

In relation to environmental and other regulatory approvals, the main focus of the paper is on removing duplication and streamlining processes, including through referral of powers and bilateral agreements between jurisdictions in some areas, as well as harmonising regulatory requirements across jurisdictions through various COAG processes.

The discussion of skills and workforce productivity, supply chain opportunities and Indigenous employment provides an overview of programs and policy initiatives already in train, including changes to the *Fair Work Act 2009* (Cth) to support greenfields projects, the re-establishment of the Australian Building and Construction Commission, the proposed Productivity Commission review of the Fair Work Act, and the Government's consideration of the Forrest Review of Indigenous training and employment services.

The paper suggests better use can be made of Geoscience Australia's role in pre competitive geoscience to leverage private investment. It also suggests that private investment could be

enhanced by centralised management and open access of industry environmental data submitted for approval and regulatory purposes, giving industry the benefit of larger and better managed data sets. An interesting aspect of this part of the paper is the suggestion that community engagement on the relative merits of resource projects, particularly those involving CSG and large coal mining developments, would benefit from improved environmental and scientific data and that there is an important role for government and other trusted institutions in providing that data so as to give communities confidence in the integrity of the information used to make decisions.

Adequate infrastructure is clearly critical to many energy projects, particularly transport infrastructure. The paper acknowledges that shared use of private infrastructure is a key part of the policy framework and notes there are a number of existing processes and enquiries relevant to this issue. These include the Productivity Commission review of the National Access Regime and the Competition Policy Review being chaired by Professor Ian Harper. The role of Infrastructure Australia and recent amendments to its functions and governance arrangements are also highlighted.

Electricity Prices

In relation to electricity prices, the Green Paper notes that electricity prices have risen sharply, with household prices rising around 50 per cent nationally over the past four years. These rises have mainly been a result of investment in transmission and distribution network assets to meet anticipated rising peak demand, rather than wholesale electricity prices, which have fallen.

The goals identified in the Green Paper with respect to electricity prices are:

- Pursue tariff reform and improved consumer access to energy use data, including electricity network tariff reform to limit cross-subsidies.
- Ensure reliability standards do not encourage unnecessary investment in electricity networks.
- Improve the efficiency of electricity use.
- Rationalise emissions reductions actions to reduce unnecessary costs.
- Remove unnecessary regulatory barriers and market interventions, and encourage further privatisation.

A key theme in this chapter is the impact on electricity prices and markets of falling electricity demand and the increased volume of electricity coming from distributed generation, mainly from residential solar photovoltaic (**PV**) rooftop systems. The paper strongly advocates tariff reform, through existing policy and regulatory processes, that will lead to more cost reflective tariffs and the removal of cross subsidies. Among other benefits, this will assist in moderating peak demand, and therefore the need for more network investment. Further deployment of advanced metering and smart grid technology are also important factors in achieving this objective.

This chapter also advocates the continuing rationalisation of emission reductions schemes, which are said to have an adverse impact on the efficient operation of energy markets, and the privatisation of energy assets by state and territory governments. The paper does not give any indication of the likely direction of the Government's response to the Warburton Review of the RET, simply stating that the Government will consider the findings of the review in the context of the costs and benefits of the scheme, and the impact on electricity prices and markets, and sovereign risk issues.

In terms of the future direction of reform in the National Electricity Market, one issue the paper touches on briefly is the longer-term implications for market design of falling electricity demand and low wholesale market prices. The paper asks whether, in the current market and regulatory environment, the wholesale spot price works as intended to provide the necessary signals to inform investor decisions to enter or exit the market.

Building Gas Supply and Improving Market Operation

This chapter highlights the potential for near-term supply shortages in the east coast gas market, and attendant price rises, as a key issue to be addressed. It also focuses on concerns arising from a perceived lack of transparency in relation to gas prices, leading to uncertainty for both gas sellers and buyers, and on the potential benefits from improvements in the functioning of gas markets.

The goals it identifies for government action are:

- Bring on new gas supply as quickly as possible.
- Improve the availability and quality of market information to improve market transparency and competition.
- Implement other gas market development priorities to expedite gas market reform.

The paper does not favour gas reservation requirements, national interest tests or export controls as a means of addressing potential shortages in domestic supply. It suggests that these measures can distort market signals, increase the risk of under investment, and defer the development of new gas supply.

A theme touched on here, and in some other areas of the paper, is the importance of CSG and other unconventional gas sources in meeting Australia's domestic and export gas supply needs. The paper acknowledges that community concerns are a significant barrier to development, and emphasises the important role to be played by effective and meaningful community engagement (as opposed to legislative or regulatory change) in gaining support for such projects.

In relation to gas price transparency, the paper suggests that a review of market competition by the ACCC or the Productivity Commission could be used to determine the effectiveness of competition in gas markets. The Paper suggests that, with respect to gas market function, a long term gas market agenda needs to be developed in consultation with state and territory governments and stakeholders. This agenda could focus on gas market hubs and pipeline capacity trading as a means of improving the market's flexibility and responsiveness.

Security, Innovation and Energy Production

This chapter focuses on the security of Australia's energy supply and the gradually changing mix of Australia's domestic energy sources. It suggests that Australia's energy security arrangements have been effective in avoiding major disruptions, but identifies the potential near term shortage in east coast gas supply and national liquid fuels refining capacity as areas that need to be closely monitored. With respect to the changing domestic supply mix, it suggests coal will remain a key source of electricity generation. While it is important that lower emissions technology for coal fired generation is deployed, this requires major capital investment, which the paper says is a challenge in a market that is currently over-supplied.

The government's goals in the area of security, innovation and energy productivity are:

- Maintain secure, competitively priced and reliable energy supplies.
- Improve energy productivity (ie the output the economy achieves from the energy it uses).
- Develop a better 'outlook' capacity.
- Keep the range of energy options technology-neutral by tackling regulatory barriers and making best use of research investments.
- Look for relevant international technology engagement.

The paper highlights the significant cost savings and emissions reduction benefits available from enhancing Australia's energy productivity, and suggests that a comprehensive national approach to energy productivity could be achieved through a National Productivity Plan. With respect to the development of a better 'outlook' capacity, there are a number of existing forward-looking assessments, which the paper suggests should be better coordinated and consolidated in regular outlook reports. The paper outlines existing programs that support renewable and low-emission fossil fuel technologies, and suggests that the main initiative in promoting diversity in future energy sources should be removing unnecessary regulatory barriers.

Next Steps

The Government has indicated that written submissions on the Green Paper will be considered in a consultative process leading up to the release of the White Paper, expected later in 2014.

Submissions are due by **4 November 2014**.
