



ACCI POLICY STATEMENT

ENERGY POLICY

Throughout the world, the importance of energy is paramount. For OECD countries it is the foundation of manufacturing industry and the key to maintenance of high living standards. For developing countries, universal access to low-price reliable energy is an indispensable driver for realising economic potential and improving quality of life.

In Australia, the energy sector contributes significantly to our economic prosperity and standard of living. The reliable availability of competitively priced energy is fundamental to the international competitiveness of Australian industries, particularly those that are energy intensive. Exports of energy commodities, technologies and resources have also contributed to wealth and job creation. Put simply, the nation's economic prosperity is determined by access to energy at competitive prices.

The key issues are the continued reliable supply of energy products including coal, liquid fuels, electricity and natural gas at competitive prices for industry, commerce and households; and the continued removal of impediments to ongoing reform of the energy sector.

Australia is well endowed with conventional energy resources. It is to be expected that Australia will remain substantially reliant on its fossil fuel supplies for the foreseeable future. However, it is important that the opportunity for the development of reliable and competitively priced supply of energy from other sources, including renewables and nuclear, is available. This is because of the potential contribution such energy sources can make in reducing overall greenhouse gas emissions. However, as with all energy options, consideration should be subject to full cost benefit analysis, including examination of relevant economic, technical and environmental issues.

The pervasive nature of energy means that energy policy decisions will impact throughout the economy. Energy policy is concerned as much with broader economic, social and environmental issues as it is with simply energy supply and use. A government energy policy should underpin its policy response to many issues including investment, infrastructure, innovation, transport, regional development, and greenhouse issues.

PRINCIPLES OF ENERGY POLICY

Business:

- recognises that Australia needs a reliable, secure and competitive energy sector to facilitate industry growth;
- recognises that the Australian Government has a strategic national role to play in the development of energy policy, while the State and Territory role is primarily one of regulation;
- supports the development by government of a comprehensive, integrated, long term, market responsive and output-based energy policy that promotes a fully contestable national grid with full interconnectedness;
- expects that a national energy policy should underpin Australian Government policy responses to a range of issues including investment, infrastructure, innovation, transport, regional development and climate change;
- advocates a competitive market in the generation, transmission and sale of all forms of energy;
- supports an assessment of Australia's long term energy needs to ensure an appropriate supply of energy to meet the

- demands of industry;
- calls on government to encourage a more streamlined energy regulatory environment so that industry is not burdened with duplication, inconsistencies and competing aims;
 - encourages further outcomes in electricity and gas market reforms so that there is greater competition between generators, suppliers and retailers of electricity;
 - supports effective price competition between energy sources to enable industry to more effectively compete in the global market place;
 - expects that market forces over time will broaden the source and fuel mix of Australia's energy base leading to less reliance on coal as an energy source;
 - seeks the identification of impediments to investment in energy infrastructure so that strategies can be developed to encourage greater investment in Australia's energy sector;
 - supports the application of the principles of sustainable development to the development of the energy sector. Environmentally sound technologies that are clean, efficient and sustainable should be utilised wherever possible;
 - recognises that innovation and the implementation of new technologies by industry will create improved energy management and greenhouse performance; and
 - advocates a lead role for Australia in promoting reform of energy markets in the Asia region.

POLICY OBJECTIVES

ACCI believes that the fundamental objectives for an energy policy must be to ensure a secure, reliable, cost effective source of energy to industry and commerce to facilitate growth.

To underpin and to be able to meet that growth, appropriate investment in energy infrastructure is required. The identification of impediments to investment in energy infrastructure, including generation and transmission, is needed so that strategies can be developed to encourage greater investment in Australia's energy sector.

The quality of supply will only be ensured by adequate investment in strategically located generation capacity, especially peakload generators; the construction of new transmission capacity, especially interconnectors between States and Territories as they presently are critically in need of upgrade; and the maintenance and upgrading of distribution networks.

The only way that industry will continue to have access to secure, reliable and cost effective energy is for market reform to continue apace. The objective is to achieve a fully competitive market in generation, transmission and distribution of energy. Of particular importance is the need to have fully functional interconnectors at the State and Territory levels to facilitate the development of a competitive electricity market.

Governments should also continue reform for a more streamlined energy regulatory environment so that industry is not burdened with duplication, inconsistencies and competing aims. In its decision making particularly at the State level, governments should be mindful of the importance of the predictability, transparency and clarity of its decision making as a basis of certainty in investment in infrastructure.

ACCI believes that governments should be encouraging further reforms in the electricity and gas markets so that there is greater competition between sectors and energy sources.

The role of governments is very important in this context. The Australian Government needs to play a strategic central role, setting policy for microeconomic reform, while the State and Territories should continue to encourage efficiencies within their energy utilities where they are still State owned or operated. Together, governments need to continue to address the integration of their energy markets, developing the national grid and ensuring effective price competition between energy sources to enable industry to more effectively compete in the global market place.

THE POLICY FRAMEWORK

As in many countries around the world, competition policy has reformed Australian energy markets creating a new industry structure. There is now more open access to the transmission and distribution grid and competition in generation and retail supply. The electricity retail sector has also reformed, with increased contestability for most retail customers in the National Electricity Market. The need for a long-term strategy for an energy policy has become fundamental for the 21st century with the emerging complex interactions between economic and environmental goals. Not least of these are the potential environmental consequences of increased greenhouse gas emissions from the burning of fossil fuels.

Australia as a country relies significantly on the export of energy (including energy embedded goods such as aluminium) for our economic prosperity. However, Australia also has a strong commitment to environmental best practice, so it is a challenge to balance environmental and economic objectives to ensure that our prosperity at home and our competitiveness abroad are maintained.

Without our fossil fuel energy sources, it is quite possible that Australia would have been reliant on nuclear energy or else have faced the uncertainty and expense of imported energy. Options for hydro generated electricity are limited because of the relatively low relief and environmental considerations ensure that the damming of rivers for hydro electricity or irrigation are hotly debated. Other renewable energies constitute a very small proportion of Australia's energy needs, though recent government policies are encouraging further development in this area.

Australia has increased its consumption of energy over the past ten years in addition to increasing its production of energy for export. Australia had an increase in energy consumption of 2.6 per cent during the 1980s slowing to 2.5 per cent during the 1990s and in 2001-02 energy products accounted for approximately 20 per cent of Australia's merchandise export earnings.

Australia has a high reliance on coal for the majority of base power use. Coal production dominates energy production in Australia. Coal accounts for 42 per cent of total energy production in Australia and represents 11 per cent of total exports from Australia. Australian industry relies on the coal industry for secure, competitively priced power.

Electricity accounts for 21 per cent of final energy consumption in Australia and some 66 per cent of the commercial and 42 per cent of the residential segments of the energy market. The manufacturing sector is the largest user of electricity.

The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates that total energy consumption in Australia will grow at an annual rate of 2.2 per cent to 2019-2020. The key for industry growth is the development of a reliable secure and competitive energy sector.

The Council of Australian Governments (COAG) has slowly progressed energy market reforms since 1991. Significant reform measures were announced by the COAG Ministerial Council on Energy in 2003 in response to the 2002 COAG Energy Market Review. Key elements of the reforms are the Australian Energy Regulator and the Australian Energy Market Commission which begin operation on 1 July 2005 under the National Electricity Law. The Australian Energy Regulator is intended to replace existing regulators in all jurisdictions. The Australian Energy Market Commission will provide rule making and market development. Further legislative packages and policy decisions will progress the reforms through to 2006.

ACCI supports the application of the principles of sustainable development to the development of the energy sector. Innovation and the implementation of new technologies by industry will create improved energy management and

greenhouse performance. The *Renewable Energy (Electricity) Act 2000* aims to encourage the further development of environmentally sound technologies that are clean, efficient and sustainable.

ACCI supports the broadening of fuel sources to reduce our dependence on fossil fuels both from an environmental perspective and from an industry development viewpoint. The development of reliable and competitively priced supply of energy from other sources is encouraged, both because of their environmental impact and their export potential.

However, it is to be anticipated that Australia will remain substantially reliant on its fossil fuel supplies for the foreseeable future. Innovation within existing technologies to improve efficiencies is one area where advances can be made and these opportunities should be encouraged and explored.

It needs to be recognised however, that any structural change in energy generation to meet environmental goals, must occur at a pace that enables industry to adjust or else the community risks economic hardship and social disruption. The main concern for industry with renewable energy is the relative higher cost of renewable energy sources and its incapacity to meet base load power requirements.

A key pathway to reducing energy consumption and conserving resources is the implementation of programs and policies that encourage energy efficiency. This is particularly so for consumption by households and other small users, where consumption has been steadily expanding over the last two decades. Improving the end use efficiency of appliances and equipment used by households and their energy consumption behaviour, should be the focus of government programs. The support for incentives for small business to adopt energy efficient measures and upgrade to more energy efficient equipment should be further expanded.

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