

Chapter 2

The Energy White Paper

Three themes – prosperity, security, and sustainability – underpin the government's approach to energy policy. The Australian Government has undertaken a comprehensive review of its energy policies and approaches, and has developed a long-term framework to ensure our energy advantage is utilised for the benefit of all Australians.¹

2.1 Thus the Prime Minister in the foreword to the EWP explained the direction of the Government's energy policy. This chapter gives an overview of the EWP and key initiatives that were announced in it, including an explanation of some relevant developments since June 2004.

Development and overview of the EWP

2.2 The EWP was developed by the Energy Task Force, a whole-of-government process involving officers from the Department of Prime Minister and Cabinet (PM&C); the Department of the Treasury; the Department of the Environment and Heritage (DEH); the Department of Transport and Regional Services (DOTARS); and the Department of Industry, Tourism and Resources (DITR).

2.3 Ms Kathleen Mackie from DEH told the Committee:

The task force looked at a wide range of issues affecting energy policy: developing our energy resources, energy markets, in terms of both electricity and gas, transport fuels, fuel excise reform, energy efficiency, energy security, and climate change. We also looked at air quality impacts, the impacts of energy development projects and innovation in the energy sector.²

2.4 The EWP does not contain any major shifts in policy direction. However, it does provide significant excise cuts on fossil fuels. It also introduces several new initiatives, as outlined below. In essence, the EWP seeks to further develop Australia's energy resources and secure Australia's fossil-fuel energy sector, as indicated early in the document:

Developing Australia's abundant low-cost energy resources is a key to our future prosperity. Australia is the world's fourth largest producer, and largest exporter, of coal. We supply 8 per cent of the world trade for liquefied natural gas, and possess 40 per cent of the world's low-cost uranium reserves. Our known oil reserves are significant, but are projected

1 EWP, Prime Minister's Foreword, p iii.

2 Ms Kathleen Mackie, Department of Environment and Heritage, *Committee Hansard*, 4 August 2004, p. 1.

to decline in the absence of new discoveries. Australia has significant wind and solar resources, and limited large hydro resources. Investment committed on energy projects under development in Australia totalled \$11.1 billion at April 2004 and a further \$38.8 billion in investment is under consideration ...³

2.5 The then Minister for the Environment and Heritage, the Hon Dr David Kemp MP, said:

Australia has a rich and unique resource base. It is important that we capitalise on these natural assets to satisfy our growing energy needs by driving costs down, while moving strongly to reduce the levels of greenhouse gas from energy use.⁴

2.6 Australians spend about \$50 billion on energy each year, and energy resources provide \$24 billion a year in export income. The EWP states that the Government has put in place a range of policies to:

- attract investment in the efficient discovery and development of our energy resources for the benefit of all Australians
- deliver a prosperous economy while protecting the environment and playing an active role in global efforts to reduce greenhouse emissions
- encourage development of cleaner, more efficient technologies to underpin Australia's energy future
- develop effective and efficient energy markets that deliver competitively priced energy, where and when it is needed into the future
- minimise disruptions to energy supplies and respond quickly and effectively when disruptions occur
- establish an efficient energy tax base, restricting fuel excise to end use and applying resource rent taxes to offshore projects
- ensure Australia uses its energy wisely.⁵

Major policy considerations

2.7 The EWP states that the most influential factors in Australian policy-making on energy issues are the following:

- Australia is well endowed with energy (particularly coal, gas and uranium);
- Australia's energy is competitively priced;
- Australia is a major exporter of energy and energy-intensive products;

3 EWP, p. 3.

4 The Hon Dr David Kemp, Minister for the Environment and Heritage, *MRET: adding muscle, not fat*, media release K121, 15 June 2004.

5 EWP, p. 2.

-
- energy resources contribute significantly to government revenue;
 - energy sector investments are typically large and long-lasting;
 - Australia's energy use is emissions-intensive; and
 - Australia is a 'small global player'.⁶

Key initiatives

2.8 Initiatives in the EWP include measures which are claimed to promote low-emissions technology, support renewable energy, increase energy efficiency, enhance investment in resource development and promote energy market reform. They include:

- a complete overhaul of the fuel excise system to remove \$1.5 billion in excise liability from businesses and households in the period to 2012-13
- the establishment of a \$500 million fund to leverage more than \$1 billion in private investment to develop and demonstrate low-emission technologies
- a strong emphasis on the urgency and importance of continued energy market reform
- the provision of \$75 million for Solar Cities trials in urban areas to demonstrate a new energy scenario, bringing together the benefits of solar energy, energy efficiency and vibrant energy markets
- the provision of \$134 million to remove impediments to the commercial development of renewable technologies
- incentives for petroleum exploration in frontier offshore areas as announced in the 2004-05 budget
- new requirements for business to manage their emissions wisely
- a requirement that larger energy users undertake, and report publicly on, regular assessments to identify energy efficiency opportunities.⁷

2.9 Administration of these initiatives is to be spread across various portfolios, as Ms Mackie from DEH told the Committee:

Energy is a cross-cutting issue of national significance with important environmental implications.... While the task force process was whole of government, the implementation of the measures falls to specific agencies. In the case of some measures, the implementation is shared between two or more portfolios.⁸

6 EWP, pp. 41-43.

7 EWP, p. 3. Further details on some of these initiatives were provided in fact sheets published by the Department of the Prime Minister and Cabinet, and are referred to throughout this chapter.

8 Ms Kathleen Mackie, Department of Environment and Heritage, *Committee Hansard*, Canberra, 4 August 2004, p. 2.

2.10 Ms Mackie also told the Committee that new measures in the EWP 'take direct account of environmental impacts in three key ways':

The first is through the emphasis on the need for investment to meet energy demand, which is forecast to grow by around 50 per cent in the next 15 years, by recognising that investment in the energy sector needs to respond to climate change. The second way is by support to the business sector through keeping energy prices competitive—for example, through the fuel excise credit reforms—balanced by a requirement that business play its part in meeting environment challenges through managing air pollution. The third way is through measures to facilitate the development of energy resources, which are complemented by measures to address the environmental impacts of major energy projects. So the approach focused on the long term—the 20- to 30-year horizon—and looked at an energy policy which would meet demand for energy and maximise the benefits from our energy resources but also position us to meet environment challenges.⁹

2.11 Relevant initiatives are briefly discussed below under the following headings:

- low emission technology;
- renewable energy support;
- energy efficiency measures (Chapter 6 of the EWP);
- Australia's approach to climate change (Chapter 8 of the EWP);
- developing Australia's energy resources (Chapter 2 of the EWP);
- energy market reform (Chapters 3 and 4 of the EWP); and
- fuel excise reform (Chapter 5 of the EWP).

Low emission technology

2.12 The Government considers that 'increasing the range and lowering of the cost of low-emission technologies will bring the achievement of long-term emission reductions within reach'¹⁰. The EWP refers to 'a wide range of technologies being developed that could significantly reduce the greenhouse signature of energy production and use'.¹¹ The EWP acknowledges that some of these technologies are 'relatively mature', such as wind; some are 'commercially available but developing rapidly', such as solar, and others are less developed, such as hot rocks and carbon capture.¹²

9 *Committee Hansard*, 4 August 2004, p. 2.

10 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Low-emission Energy Technologies*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_1.pdf.

11 EWP, p. 143.

12 EWP, p. 143.

2.13 The EWP is supportive of geosequestration, which is the process of capturing carbon dioxide produced by electricity generation or other industrial processes and storing it deep underground.¹³ The EWP states that such technologies 'could substantially lower emissions from coal and gas electricity generation' and notes that 'some of the basic technology for achieving this exists'.¹⁴ It also notes that international collaboration on geosequestration is 'an important element of the US-Australia Climate Action Plan'.¹⁵ The paper acknowledges, however, that 'significant challenges remain' and that demonstrating the commercial application of such technologies 'is likely to be expensive and take at least ten years'.¹⁶

2.14 In promoting lower emissions technology, several new measures were announced in the EWP:

- the establishment of the Low Emission Technology Development Fund;
- the establishment of the 'Solar Cities: a Vision for the Future' program;
- addressing impediments to distributed generation; and
- support of Greenhouse technology projects.

2.15 Each of these is briefly outlined below.

Low Emissions Technology Development Fund

2.16 The Government is to provide \$500 million, which it anticipates will facilitate at least \$1 billion in private sector investment, in developing and deploying low-emission technologies with long-term abatement potential. Eligible technologies need to be able to reduce greenhouse emissions by at least 2 per cent, at realistic rates of long-term uptake, and be commercially available by 2020-2030.¹⁷ Technologies can include renewable and fossil-fuel supply as well as energy efficiency in both the stationary and transport sectors.

2.17 The fund will be delivered through competitive rounds commencing in 2006. Each round will be preceded by a public statement of the Government's assessment of challenges and opportunities.¹⁸

2.18 When questioned about the likely breakdown of grants from that fund, Mr McGlynn from DEH told the Committee in August 2004 that guidelines for the

13 EWP, p. 143.

14 EWP, p. 143.

15 EWP, p. 143.

16 EWP, p. 143.

17 EWP, p. 144.

18 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Low-emission Technology Funds*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_2.pdf.

program were still being 'developed and finalised', but that there was a range of 'obvious' technologies that might qualify:

Fossil fuel combustion combined with geosequestration clearly was one of the possibilities. Hot dry rock technology was clearly a possibility, as was wave power. Potentially some other renewable sources, if they can deal with their intermittency issues and can deal with the need to have a large-scale penetration, may be possibilities. Potentially some intelligent transport applications could be eligible. So there is a whole range of possibilities.¹⁹

Solar Cities trial in urban areas

2.19 The EWP acknowledges that solar power is 'a zero emissions energy source, in which Australia has developed leading-edge technologies'.²⁰ The Government states that 'current electricity market arrangements do not appropriately reward these benefits of solar technologies',²¹ even though it considers that solar technologies are 'widely used in Australia, and receive significant government support'.²²

2.20 The Solar Cities trials will involve the allocation of \$75 million to support the uptake in urban areas of solar electricity and hot water 'by a substantial proportion of residents and businesses',²³ as well as energy efficiency technologies. They will also include trialling of more effective energy market signals and will also demonstrate the economic benefits of photovoltaics (PV) in reducing electricity demand during peak times, and reducing the need for distribution infrastructure.

2.21 Trial results are to be monitored for at least five years where the 'impacts upon transmission and distribution costs will be carefully assessed, providing the first empirical evidence of the magnitude of savings'.²⁴ The Government advises that 'delaying the need for new generation infrastructure reduces costs as well as allowing more time for development of low-emission generation options'.²⁵

19 *Committee Hansard*, 4 August 2004, pp. 8-9.

20 EWP, p. 145.

21 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Solar Cities: A Vision of the Future*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_4.pdf.

22 EWP, p. 145.

23 EWP, p. 145.

24 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Solar Cities: A Vision of the Future*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_4.pdf.

25 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Solar Cities: A Vision of the Future*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_4.pdf.

2.22 When questioned about how funds would be allocated from this program, Mr McGlynn from DEH told the Committee in August 2004 that the guidelines were 'at a fairly preliminary stage' and it would be a 'competitive process in terms of selecting the sites'.²⁶ He noted that the program was intended to be 'a large urban area program'²⁷ and that Adelaide was a possible site. It had not been determined who the target group for the program would be. The Committee notes that the Australian Greenhouse Office has since released a consultation document that included draft program guidelines²⁸ and undertook consultations in December 2004. A trial is to be established in Adelaide and 'at least three other grid-connected urban sites around Australia'.²⁹

Addressing impediments to distributed generation

2.23 The EWP states that the Government :

... will continue to ensure national energy markets are responsive to distributed generation (where generation is located close to demand) and demand side management (where energy users receive incentives for reducing use, especially during peak times).³⁰

2.24 To this end the Government is to work with states and territories:

... to identify and overcome energy market rules that provide impediments to the uptake of smaller-scale local generation (distributed generation), including renewable energy sources. A report identifying barriers will be presented to COAG by the end of 2005.³¹

Greenhouse technology projects

2.25 The Australian Greenhouse Office was allocated \$230 million to continue support for greenhouse technology projects under programs such as the Remote Renewable Power Generation and Greenhouse Gas Abatement programs.³² The

26 *Committee Hansard*, 4 August 2004, p. 20.

27 *Committee Hansard*, 4 August 2004, p. 20.

28 Australian Greenhouse Office, *Solar Cities – Statement of challenges and opportunities*, 2004, released on 3 December 2004. Submissions were sought by 14 January 2005. As at 15 February 2005, the guidelines had not been finalised (*Additional Estimates Committee Hansard*, 15 February 2005, p. 141).

29 Senator the Hon Ian Campbell, Minister for the Environment and Heritage, 'Preparation for Solar Cities under way', *Media Release*, 3 December 2004.

30 EWP, p. 79.

31 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Solar Cities: A Vision of the Future*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_1.pdf.

32 EWP, p. 31.

2004-05 Budget also included \$27 million for the development and uptake of low emission technology, including through aggregation of smaller scale proposals.³³

Renewable energy support

2.26 The Government has stated that it intends to 'continue its extensive and effective support' for renewable energy technologies as an important part of Australia's long-term greenhouse response.³⁴ As well as promoting low emissions technology as outlined above, key strategies include:

- the Mandatory Renewable Energy Target (MRET);
- the Renewable Energy Development Initiative (REDI);
- intermittent energy storage technologies; and
- wind forecasting.

MRET

2.27 The EWP states that the Government will continue to support the MRET to 2020. However, the target will not be extended or increased.³⁵ The Government states that the continued support of the current MRET will provide incentive for over \$2 billion in renewable energy investment, leading to an estimated increase in Australian renewable electricity output of 60 per cent until 2010. The Government has also referred to increasing the MRET's efficiency, by improving the transparency and operation of the market for renewable certificates, to provide greater certainty for investment.³⁶

2.28 The EWP notes that an independent report to government, the 2003 Tambling Report,³⁷ recommended an extension of the MRET from 9500 Gwh by 2010 to 20,000 Gwh by 2020 and beyond, which would provide subsidised pathways for renewable energy. However, the Government rejected that recommendation on the basis that an expansion of the MRET 'would impose significant economic costs through higher

33 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Low-emission Energy Technologies*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_1.pdf.

34 EWP, p. 30.

35 EWP, p. 147.

36 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Renewable Energy Support*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_3.pdf.

37 Mandatory Renewable Energy Target Review Panel, *Renewable Opportunities: A Review of the Operation of the Renewable Energy (Electricity) Act 2000*, (Chair the Hon Grant Tambling), Commonwealth of Australia, 2003.

electricity prices' and 'would double the current projected cumulative economic cost of MRET to over \$5 billion by 2020 in net present value terms'.³⁸

2.29 The EWP states that the Government:

... considers a better path is to build on the successful outcomes of the MRET to more directly promote the development and demonstration of a broader range of low-emission technologies, and more aggressively address the impediments to the uptake of renewable energy.³⁹

2.30 The then Minister for Environment and Heritage stated that, rather than following the Tambling Report recommendations, the Government would address technical and regulatory barriers to widespread take-up in order to target support for renewable energy.⁴⁰ The Government is to provide \$134 million in new funding to address specific barriers impeding the uptake of renewable energy through the Renewable Energy Development Fund (REDI), Intermittent Energy Storage, and Wind Forecasting,⁴¹ as outlined below.

Renewable Energy Development Initiative (REDI)

2.31 The Government is to provide \$100 million over seven years, comprising \$50 million new funding and \$50 million from the Commercial Ready Programme, 'to promote strategic development of renewable energy technologies, systems and processes that have strong commercial potential'.⁴²

Intermittent energy storage technologies

2.32 The EWP noted that some important low-emission technologies such as wind and solar produce electricity intermittently, that is, when conditions allow. The Government pledged \$18 million to support development of advanced electricity storage technologies for renewable energy, including batteries, electro-mechanical and chemical storage.⁴³

38 EWP, p. 148.

39 EWP, p. 148.

40 The Hon Dr David Kemp, then Minister for the Environment and Heritage, 'MRET: adding muscle, not fat', *Media release* K121, 15 June 2004.

41 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Renewable Energy Support*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_3.pdf.

42 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Renewable Energy Support*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_1.pdf.

43 EWP, p. 148.

Wind forecasting

2.33 The Government also stated that 'up to \$14 million' would be allocated over five years:

... to develop and install systems to provide accurate long-range forecasts for wind output. This will facilitate greater penetration of wind in energy markets and allow for more strategic planning of new wind farms.⁴⁴

2.34 The EWP notes that the Government intends to establish partnerships with state and territory governments and to seek matching private sector funding.⁴⁵

Energy efficiency measures

2.35 Energy efficiency refers to gaining the same or a higher level of useful output using less energy input, and is important in both stationary and transport energy.⁴⁶ Energy efficiency improvements in Australia have occurred more slowly than elsewhere, the IEA finding that Australia's improvement rate is less than half that of other countries.⁴⁷ The EWP states that this is due partly to impediments that prevent the optimal uptake of energy efficiency, such as market arrangements that do not fully value the benefits from energy efficiency.⁴⁸

2.36 The Government claims that improving energy efficiency opportunities could deliver almost \$1 billion per year in increased GDP. The policy, designed to improve the uptake of commercial energy efficiency opportunities by Australian businesses and households, will focus on the following:

- improving market signals through reform of Australia's energy markets, and demonstrating the benefits of energy efficiency through 'Solar Cities' trials
- continuing to develop and update minimum energy performance requirements for widely used appliances and residential and commercial buildings, building on existing programs
- providing information to consumers and businesses about the energy performance of appliances and buildings (for example, landlords and building owners will be required to disclose energy performance information to prospective tenants and purchasers)
- encouraging firms to identify and report on energy use and energy efficiency opportunities. Starting in 2006, large energy users (those using over 0.5

44 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Renewable Energy Support*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_3.pdf.

45 EWP, p. 148.

46 EWP, p.106.

47 EWP, p.106.

48 EWP, pp. 106-107.

petajoules per annum) will be required to undertake, and report publicly on, a rigorous assessment of energy efficiency opportunities every five years

- requiring large energy resource project proponents and businesses receiving fuel excise credits of over \$3 million per annum to join the Greenhouse Challenge, and report on their emissions and mitigation plans; and
- working with state and territory governments to improve the delivery of existing programs, and continuing to improve the efficiency of government operations.⁴⁹

Mandatory energy efficiency assessments

2.37 Approximately 250 businesses in Australia using more than 0.5 petajoules of energy per year account for more than 60 per cent of total business energy use, and each of these firms uses as much energy as 10 000 average Australian households. All businesses using more than 0.5 petajoules of energy per year will be required to undertake an energy efficiency opportunity assessment every five years and report publicly on outcomes. The Government will provide funding of \$17 million over five years to assist this process.⁵⁰

2.38 Implementation details are to be finalised in consultation with industry with a view to commencement in 2006, based on the following parameters:

- It will apply to all companies using more than 0.5 PJ of energy per year.
- A rolling schedule of assessments will be developed so that around one fifth of businesses will conduct assessments each year.
- Businesses will have a specified time to complete their assessment and prepare a public report. Those reports will be made available, where possible, through the Greenhouse Challenge program's on line reporting system.
- The reports must include details of energy efficiency opportunities (including percentage of energy that can be saved with paybacks up to 4 years), as well as information on the firms' energy performance.
- The assessments will need to be conducted in accordance with specified guidelines to be developed in consultation with industry and other governments. The guidelines will be based on a thorough examination of operations, including a systematic analysis of potential systems rather than just an audit of existing plant. Assessments will be more rigorous than current

49 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Energy Efficiency Measures*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_5.pdf.

50 EWP, p. 181.

Level 3 audits under Australian Energy Audits Standards. Assessments will be verified and assessors accredited.⁵¹

2.39 The EWP also refers to a planned Productivity Commission inquiry to examine the potential economic and environmental benefits from improving energy efficiency.⁵² The Productivity Commission received that reference on 31 August 2004 and is due to report by 31 August 2005.⁵³ The Committee notes that a Draft Report was released by the Productivity Commission on 21 April 2005.⁵⁴

Australia's approach to climate change

2.40 In the EWP the Government advises that it recognises the 'necessity of lowering global greenhouse emissions and that achieving this will require substantive action over the long term'.⁵⁵ The Government also notes that any global response must encompass the world's largest emitters. The EWP states that the Government is 'committed to maintaining a strong and internally competitive economy while lowering its greenhouse signature' and to this end 'is committed to meeting its Kyoto target of keeping greenhouse emissions to 108 per cent of 1990 levels by 2008-12'.⁵⁶ The Government further advises that it is on track to meet that target and will continue to monitor progress.⁵⁷ The EWP also refers to the Government's 'comprehensive strategy' for meeting short and long term greenhouse objectives.⁵⁸

2.41 The EWP claims:

Abatement measures already taken through partnerships with government, industry and the broader Australian community are expected to deliver annual emissions abatement of some 67 million tonnes by 2008-12 – the equivalent of taking all of Australia's cars, trucks and buses off the road.⁵⁹

2.42 The EWP states that more than \$1 billion has been allocated for greenhouse gas abatement, the major elements of the strategy being as follows:

51 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Mandatory Energy Efficiency Assessments*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_6.pdf.

52 EWP, p. 181.

53 Terms of reference are available at <http://www.pc.gov.au/inquiry/energy/tor.html>. The Productivity Commission held hearings in November 2004.

54 See Productivity Commission, *Energy Efficiency: Draft Report*, April 2005, available at <http://www.pc.gov.au/inquiry/energy/index.html>.

55 EWP, p. 137.

56 EWP, p. 138.

57 EWP, p. 138.

58 EWP, p. 131.

59 EWP, p. 138.

- Minimum Energy Performance Standards for appliances, equipment and buildings will deliver 8.3 Mt of abatement in 2010 as well as more than \$4 billion in net economic benefit over the 2003-2018 period.
- The Greenhouse Challenge programme will deliver 13.2 Mt of abatement in 2010 and has helped more than 700 Australian companies identify and act on emissions abatement opportunities while saving money and increasing product quality.
- The Mandatory Renewable Energy Target will deliver 6.5 Mt of abatement in 2010 and drive over \$2 billion in investment in new renewable energy generation.
- The Greenhouse Gas Abatement programme has allocated over \$100 million to companies to achieve large scale abatement in the 2008-12 period, and will deliver 10.3 Mt of abatement.
- The *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989*, as amended in 2003, sets the international standard for managing synthetic greenhouse gases.⁶⁰

2.43 The EWP also states that the Government's 2004-05 budget 'included a strengthened approach to greenhouse policy' by focusing and integrating measures in five strategic areas:

- positioning Australia to further reduce its greenhouse signature as the economy continues to grow strongly
- engaging internationally to contribute to developing an effective global response to climate change
- addressing the risks, capturing the opportunities and preparing Australia for the impacts of climate change
- building our understanding of the science of climate change and our capacity to measure greenhouse emission trends accurately
- advancing whole of government policy making in this area.⁶¹

2.44 The EWP notes that the Government refuses to ratify the Kyoto protocol 'as it does not provide the effective global framework for meeting long-term objectives'.⁶² The EWP refers to the lack of an 'internationally agreed global regime to contain emissions ... for the period beyond 2012' or of any prospective agreements in current prospect, and accordingly:

... it is premature to impose significant economy-wide costs in order to meet a specific long-term target, such as through an emissions-trading scheme.⁶³

60 EWP, p. 139 and footnote 1. The abatement figures quoted are based on 2003 projections.

61 EWP, p. 139.

62 EWP, p. 139.

63 EWP, p. 140.

2.45 However, the EWP does not seek to quantify a timeframe or give evidence to suggest at what point demonstrable climatic changes may make imposition of costs timely.

2.46 The Government does, however, recognise the need to take some action now and the EWP refers to a strategy 'based on strong practical action':

- Developing a wider range of low-cost low-emissions technologies. Future greenhouse objectives could require significant penetration of low-emission technologies that at current prices would be very expensive. Ensuring a wider and low-priced range of technologies increases future flexibility. In developing these technologies, special attention needs to be paid to the ability to preserve the value of our energy exports.
- Integrating low-emissions supply technologies, energy efficiency and flexible markets, through major demonstrations of how future energy arrangements can deliver economic prosperity with a lower greenhouse signature.
- Facilitating the identification and uptake of commercially attractive abatement options. This reduces the magnitude of any future emissions constraint and enhances the economic capacity to respond to future challenges. It also includes measures that increase the abilities of business and households to understand and manage their greenhouse demand side management.
- Continuing support for facilitating the transition to low-emissions energy sources. This includes direct support for the uptake of new technologies and practices as well as implementing appropriate regulatory and market frameworks that do not discriminate against new technologies.⁶⁴

2.47 The EWP claims that these strategies will enable Australia to 'respond to any long-term emissions constraints that may be required as part of an effective global response to climate change'⁶⁵ and 'positions Australia to maintain its position as a leading international supplier of energy resources and technologies, by moving toward leadership in low-emission technologies'.⁶⁶ The EWP also states:

Should such an effective global response [to climate change] be in prospect, the government will consider least-cost approaches to constraining emissions.⁶⁷

2.48 Examples of such approaches might include an emissions trading scheme in the longer term. However, the Committee suggests that the potential for large scale research into technologies such as geosequestration (in the hope that they will prove 'least-cost' solutions in the future), must be fully considered prior to diverting public monies away from more proven abatement technologies.

64 EWP, p. 141.

65 EWP, p. 149.

66 EWP, p. 149.

67 EWP, p. 149.

Developing Australia's energy resources

2.49 In seeking to attract investment in the efficient discovery and development of energy resources, a Land Access Strategy is to be implemented to ensure efficient, equitable access to land for exploration. The core elements of the 'Resource Exploration Strategy' include:

- coordinating and streamlining administrative processes associated with land access
- providing template regional agreements for native title and heritage protection approvals processes
- encouraging open and effective community engagement strategies
- increasing awareness of the availability of the expedited procedure provisions of the *Native Title Act 1993*
- supporting reform of the *Aboriginal Land Rights (Northern Territory) Act 1976*.⁶⁸

2.50 Three other measures discussed below are proposed to improve Australia's investment competitiveness.⁶⁹

Funding for Geoscience Australia

2.51 The EWP states that government-provided geoscientific data is important in attracting exploration investment to Australia, in that it reduces risk associated with the early stages of exploration and provides economies of scale in mapping and information dissemination.⁷⁰ The Government will provide \$25 million to Geoscience Australia between 2003-04 and 2006-07 for the collection of new seismic data, including in offshore frontier areas, and the preservation of existing data.⁷¹

Greenhouse Challenge

2.52 Over four years \$31.3 million will be provided to extend and strengthen the Greenhouse Challenge and related partnership programs. In addition to a new tiered structure allowing committed companies to demonstrate leadership, the EWP imposes the following requirements:

- from 1 July 2006, businesses receiving more than \$3 million per year in fuel excise credits must be members of the Greenhouse Challenge program; and

68 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Developing our energy resources*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_7.pdf.

69 EWP, p. 64.

70 EWP, p. 55.

71 EWP, p. 176.

- large energy resource development projects will be required to be members of Greenhouse Challenge.⁷²

Petroleum Resource Rent Tax (PPRT)

2.53 The value of pre-appraisal exploration deductions in designated frontier areas when determining liability for the Petroleum Resource Rent Tax (PPRT) has been increased from 100 per cent to 150 per cent.⁷³ This is designed to encourage exploration in designated offshore areas.

Energy market reform

2.54 Two chapters of the EWP are devoted to Australia's energy markets: chapter 3 concerning electricity and gas needs, and chapter 4 concerning transport fuel needs. The EWP states:

Significant gains have flowed to consumers and businesses from the decade-long programme of energy market reform, and GDP has been raised by \$1.5 billion.

But the task remains incomplete, and the scale of investment needed to meet future demand means that further reform is urgent.⁷⁴

2.55 The Government acknowledges that the electricity market continues to act as a number of regional markets, and the gas market remain immature. The Government is also concerned about weakness in investment on demand side participation and the take up of embedded generation and renewable energy.⁷⁵ The Government has referred to its commitment to take a long-term leadership role, stating that it will collaborate with states and territories to ensure timely delivery of needed reforms.⁷⁶

2.56 The Ministerial Council on Energy committed to a renewed program of reform in the national electricity market in December 2003 for the period to 2006 with responses covering governance, regulation, transmission planning, energy user

72 EWP, p. 176.

73 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Developing our energy resources*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_7.pdf.

74 EWP, p. 65.

75 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Moving ahead with energy market reform*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_8.pdf.

76 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Moving ahead with energy market reform*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_8.pdf.

participation, and increasing natural gas penetration.⁷⁷ The EWP refers to the establishment of two new bodies: the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER). These agencies will over time replace 13 existing bodies (mainly state based), with the aim of providing certainty and stability to energy markets.⁷⁸

2.57 The AEMC is to be the rule-making body responsible for developing the national electricity and gas market. The AER, to be established as a constituent part of the ACCC under Commonwealth legislation,⁷⁹ is to be the peak regulatory body, drawing energy markets under a national umbrella. The AEMC will be established under state law. Existing bodies will retain their functions until the AEMC and AER become fully operational.⁸⁰

2.58 In order for the AEMC and AER to be effective regulatory bodies, all states and territories must enact legislation to recognise them. To date, only South Australia has taken steps towards this end. There also remains a question over the constitutionality of the Commonwealth enacting legislation to set up Federal bodies to regulate the electricity and gas markets which are traditionally state-regulated entities.

Fuel excise reform

2.59 Chapter 5 of the EWP deals with the fuel excise regime, with major reforms planned to commence on 1 July 2006. The EWP states that '[t]he current excise arrangements are no longer consistent with the principles of good taxation'⁸¹ and that there are inconsistencies and anomalies in the system.⁸² The changes aim to 'lower compliance costs, reduce tax on business and remove the burden of excise from thousands of individual business and households'.⁸³

2.60 As summarised in a Parliamentary Library research paper, the main changes proposed are:

77 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Moving ahead with energy market reform*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_8.pdf.

78 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Moving ahead with energy market reform*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_8.pdf.

79 Commonwealth legislation to establish the AER was passed in June 2004.

80 Department of Prime Minister and Cabinet, *Securing Australia's Energy Future, Fact Sheet, Moving ahead with energy market reform*, website 21 April 2005, at: http://www.dpmc.gov.au/publications/energy_future/docs/factsheet_8.pdf.

81 EWP, p. 93.

82 EWP, p. 95.

83 EWP, p. 93.

- the extension of excise rebates to all off-road business activities and all fuels used in those activities (that is, not just selected activities and fuels)
 - from 1 July 2012, all off-road business use of all fuels will be effectively excise free. Excise relief will be provided, for the first time, to a range of commercial activities, for example, metal and metal products manufacture, infrastructure construction and maintenance, and quarrying. With respect to fuels, off-road business use of petrol, for example, in utility vehicles and four-wheel motorcycles, will be effectively excise-free
 - the measures will be phased in. From 1 July 2008 to 30 June 2012, a credit will be available that is equal to half the excise incurred in all currently-ineligible off-road business activities. A full credit will apply from 1 July 2012
- from 1 July 2006, private and business use of all fuels for electricity generation will be effectively excise-free
- the excise levied on burner fuels—such as heating oil and kerosene—will be effectively removed from 1 July 2006
- relief from excise for all fuels used on-road in large vehicles
 - from 1 July 2006, the partial excise credit, now paid to users of diesel in on-road vehicles weighing 4.5 tonnes gross vehicle mass (GVM) or more, will be extended to users of all excisable fuels
 - the metropolitan boundaries governing eligibility for this credit will be abolished, making all journeys in these vehicles eligible for the credit (the purpose of the boundaries was to cut emissions from heavy diesel vehicles in urban areas by limiting grants to activities outside these areas)
- official declaration that part of the excise on fuels that heavy vehicles use is a road–user charge
 - the partial excise paid on fuels used in heavy vehicles will be declared an official, road-user charge from 1 July 2006 (this charge will be set consistent with future determinations of the National Transport Commission).
- The estimated revenue foregone from the proposals is about \$100 million in 2006–07, \$350 million in 2008–09, and \$310 million by 2012–13, bringing the total to about \$1.5 billion over the entire period.
- The Government will also abolish the Petroleum Products Freight Subsidy Scheme.⁸⁴

84 Richard Webb, Parliamentary Library, Department of Parliamentary Services, *Energy White Paper: fuel excise grants reform*, Research Note No. 11, 10 August 2004.