

Mr Brad Page  
General Manager  
CoAG Energy Market Review Secretariat  
GPO Box 9839  
CANBERRA ACT 2601

Dear Mr Page

The Business Council of Australia welcomes the Council of Australian Governments Energy Market Review Draft Report – *Towards a Truly National and Efficient Energy Market* – and appreciates the opportunity to provide comment.

The Business Council would like to congratulate the Panel on maintaining a focus on the strategic deficiencies of the current energy market and, in particular, in looking to competitive market solutions. We find that the draft report addresses most of the key matters of concern raised by the Business Council in its original submission and oral presentation to the Panel. We also note that Minister Macfarlane’s statement on 25 November contains elaborations and/or enhancements of the governance and institutional arrangements which may provide the impetus needed to move forward on energy reform in a national, coherent and timely way.

In general the Business Council is supportive of the direction and recommendations proposed in the Parer Draft Report. The Business Council of Australia considers that the suite of recommendations, if implemented, will lead to significant improvements in Australia’s energy market. The Business Council particularly welcomes the recommendation of a single, national energy regulator. On balance we believe that the benefits that would arise by implementing the total reform package, as recommended in the Draft Report, would be greater than the sum of the individual parts.

There are, however, several recommendations which are not clear in the Draft Report and which we believe, in the context of Minister Macfarlane’s statement, warrant further consideration and clarification before the report is finalised.

Before addressing these I would like to comment on the broader issue of national energy policy. While the Business Council appreciates that broader matters of national energy policy *per se* are outside the terms of reference of the review, we note that the Parer Draft Report recommends a policy role for the Ministerial Council on Energy as it relates to the energy market. There is, however, an urgent and broader need for development of a comprehensive, national, better integrated and more transparent energy policy for Australia. The growth and investment goals of the nation in concert with national greenhouse abatement objectives need to be given serious strategic consideration over time periods longer than those usually envisaged by Governments.

The Business Council in its original submission urged that the engagement of both Heads of Government and the CoAG Ministerial Council on Energy is necessary to provide strong energy policy leadership and real commitment to progress difficult reforms. The Ministerial Oversight Committee referenced in Minister Macfarlane's statement has the potential to co-ordinate and drive energy policy and national energy reforms. The involvement of the Prime Minister ensures that all Heads of Government can be engaged, and strengthens the potential for decisions to be taken in the national interest. This is welcomed by the Business Council.

The Business Council seeks further clarification within the final report on Recommendation 4.1. In particular, it is not clear at present how an independent, NEM-wide planning function within the National Electricity Market Management Company (NEMMCo) would operate smoothly and effectively. A similar comment applies to Recommendation 4.2 which would see NEMMCo assume responsibility for offering and underwriting Firm Financial Transmission rights (FTRs) for regulated NEM interconnectors. Any move towards FTRs in this context should be cautious. The cost of implementing such arrangements and the risk of market power need to be carefully considered.

In this context the Business Council notes that the 'new CoAG Energy Framework', proposed by Minister Macfarlane, has the potential to address matters of concern raised by the Council in relation to the NEMMCo's role, functions and governance relations. Specifically the creation of an Australian National Energy Corporation and an Australian Energy Market Management Company propose the separation of market development processes from systems operations functions. This has the potential to meet the objectives put forward by the Business Council, where it argued the creation of an independent Advisory Panel of Experts and an independent system operator, albeit with national planning functions.

With regard to Recommendations 6.2 and 6.3 relating to the installation of interval meters and full retail contestability, the Business Council considers that the recommended approaches can only be justified if the benefits can be shown to exceed costs. We agree that the NEM system is largely supply focused and far greater consideration needs to be given to the role of demand side measures. Thus, while the Business Council is in agreement with the objectives set out by the Panel, we would like to see the cost benefit aspects of these recommendations further explored in the final report.

The final issue the Business Council wishes to address relates to the recommendations for options to reduce greenhouse gas emissions. Clearly the Panel has been constrained, both by the nature of the review and terms of reference, in its consideration of this issue. Justice cannot be done to addressing the complexities of Australia's emissions until greenhouse policy objectives are fully integrated with other national policies which give rise to the emissions, including energy, transport, infrastructure etc. The Business Council has previously called for a strategic approach to greenhouse to facilitate adjustment within the economy to a long-term net carbon constraint while recognising the dynamic nature of economic change and investment opportunities. Accordingly, the Business Council urges Governments to develop and adopt a national, whole-of-Government approach to addressing Australia's greenhouse gas signature. In this context, the measures proposed by the Review Panel should not be viewed as the only solution to greenhouse abatement but as options to be further refined and considered in the development of an overall strategy.

The Business Council has, in previous submissions, raised concerns about the proliferation and divergence of Federal and State based schemes leading to unnecessary and costly uncertainty, duplication and complexity for business. Against this background, broad based emissions trading, particularly if it is compatible with other international trading schemes, may be a mechanism to provide least cost solutions to Australia. There are, however, significant strategic issues of trade competitiveness and the future of international regime(s) that need to be considered in making this determination.

In addition, many of the existing Commonwealth and state-based measures, appropriately cited by the Panel as ad hoc and unco-ordinated, have objectives broader than straight greenhouse gas reductions and have now been in place for some time. Substantial investments have been made by industry and winding back of these schemes will present difficulties for Governments and investors. To change the policy environment without transitional support arrangements would be extremely damaging to current and future investment - consideration therefore needs to be given to ways of managing this before finalization of the Parer recommendations.

The Business Council notes the Parer Draft Report recommends the traded goods sector be exempted from the proposed national trading scheme. The Council is of the view that until such time as Australia's competitors face an equivalent emission reduction cost, transitional adjustment arrangements to maintain competitiveness will be necessary for the trade exposed sectors. Clearly, there is a range of strategic issues and design options that will need to be explored in any consideration of emissions trading as a policy option. This exploration will require further modelling and analysis of options will be required to ensure that any scheme introduced doesn't relocate investment and is equitable, efficient and cost effective across all sectors.

In concluding, the Business Council has argued previously the need for urgent action to address the deficiencies of the energy market – delays in progress towards a more efficient national electricity market could put at risk the strength and future of our domestic industries and economy. Timely and coherent implementation of the Report recommendations is imperative and this will require not only leadership at the federal level, but also the wholesome involvement of State Governments.

Minister Macfarlane’s statement of 25 November potentially provides an implementation plan for moving forward on national energy reform. The governance and institutional options proposed importantly foreshadow key principles:

- a whole-of-Government approach at the Commonwealth level;
- engagement by Heads of Government;
- a collaborative Commonwealth-States approach recognising the role of the States;
- a coherent and timely approach in moving forward;
- financial incentives to enable implementation of difficult issues;
- good governance and institutional structures; and
- building on sensible initiatives already commenced by the NEM Policy Forum of Ministers.

We welcome the Government’s strong leadership and commitment to a continuation of energy market reform. In combination, we have before us the options necessary to continue the reform process.

Thank you for the opportunity to comment.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Katie Lahey', written in black ink.

KATIE LAHEY