

## **Integrating Australian Energy and Climate Policy**

### **Proposal**

**The Energy Policy Institute of Australia calls for Australia to establish an independent National Energy Commission to integrate its energy and energy-related climate policies.**

**Australia's existing energy and climate policies and measures are in disarray. They lack any unity of purpose and they lack any enabling mechanism to work towards any unity of purpose. Because of this, they do not enjoy an adequate level of industry or community trust.**

**Australia's lack of policy integration causes inefficiency, it damages the nation's investment reputation and it diminishes the nation's international competitiveness.**

### **The overriding objective: to integrate the nation's energy and energy-related climate policies and progress towards sustainable development**

Energy security is a prerequisite of sustainable development. To work progressively towards energy security and sustainable development, Australia must have a unified, well-designed and participative institution to formulate and implement an integrated package of energy and energy-related climate policy measures. The Energy Policy Institute of Australia therefore calls for the establishment of an independent National Energy Commission.

An independent National Energy Commission would:

- facilitate Australia's transition to a sustainable, low-emissions economy in the most affordable way
- promote Australia's economic growth and build a better climate for investors
- promote reduction in the emissions intensity of electricity generation, transportation and all emissions-intensive industrial activities and
- help Australia to meet its international climate obligations while maintaining its international competitiveness.

In working towards these objectives, an independent National Energy Commission would:

- systematically examine the feasibility and affordability of all energy technology options in a non-discriminatory fashion
- provide for genuine participation by all key stakeholders
- reduce rivalry amongst the states and territories
- reduce the level of political activism

- progressively eliminate Australia's excessive level of bureaucracy as it impinges on the energy industry
- minimise the vulnerability of policy measures to electoral cycles
- help to reduce unnecessary red and green tape
- foster the input of science and technology
- promote energy innovation and
- build confidence across industry and the community in the sustainability of policy measures and in the process of independent review.

A National Energy Commission, properly constituted, would be concerned with the emissions-related aspects of climate policy so far as the same relate to the production and use of energy. It would be expected that policymakers in the fields of environment, climate change and sustainability will continue to pursue their broader agendas.

## **What is the core of the current problem? A disarray of policy measures**

Australia's energy and climate policy measures have evolved in an ad hoc manner to regulate energy markets, to facilitate the transition to a low-emissions economy and to respond to perceived political priorities. This has created many overlaps and inefficiencies and has led to disarray.

The disarray of energy and climate policy measures includes:

- price controls
- the Renewable Energy Target
- renewable incentives (including state-based solar feed-in tariffs)
- carbon tax/emissions trading measures
- greenhouse and energy reporting requirements (National Greenhouse and Energy Reporting (NGER) scheme; state-based reporting obligations).
- an effective carbon price applied to liquid petroleum fuels used in off-road vehicles, domestic shipping and rail (which excludes light vehicles and agriculture, forestry and fishing sectors)
- energy efficiency incentives – Energy Efficiency Opportunities (National); various state-based energy saving obligations for electricity and gas retailers (NSW, South Australia, Victoria and ACT); minimum energy performance standards (MEPS) for appliances and products
- building standards
- creation and subsequent abolition of a Department of Climate Change
- CCS research initiatives and implementing legislation
- the GCCSI
- the Clean Energy Finance Corporation and Low Carbon Australia
- land-based carbon abatement activities under the Carbon Farming Initiative
- National Energy Savings Initiative (currently under investigation but no government commitment to implement)
- ad hoc plans to retire brown coal generation
- the 2010 election commitment to introduce higher emission standards for light vehicles (but not yet implemented)

In addition to energy and climate policy measures, related regulatory measures also impact on Australia's ability to pursue its economic development. These include:

- complicated and onerous project environmental approval processes
- ad hoc regulatory responses to activism, such as the introduction of a 'water trigger' under the EPBC Act and the introduction of 2 km exclusion zones from residential areas for CSG extraction
- state-based planning regimes which make it more difficult to meet legislative objectives of energy policy (such as Victoria's land planning rules and wind farm development policies and the NSW land planning rules and CSG development policies)
- state-based land clearing laws where changes have the potential to increase land-based emissions (such as Queensland's recent relaxation of restrictions on land clearing)
- the shift to a lower emissions economy is costly, complex, and requires an integrated planning approach. Renewable costs vary in place and time and their impact on total system costs is difficult to measure (see Keay paper at [http://www.energypolicyinstitute.com.au/images/Policy\\_Paper\\_Malcolm\\_Keay\\_June2013.pdf](http://www.energypolicyinstitute.com.au/images/Policy_Paper_Malcolm_Keay_June2013.pdf)).

All lower-emission options, including CCS, shale gas, and nuclear power, involve additional costs. A phased approach over time is required to temper the immediate impact and allow time for technology to develop to lower the absolute costs of the new lower-emission options. International aspirations to introduce a global carbon price are a long way from realisation.

Individual countries must put in place sustainable domestic policies that do not hold back their own economic progress. In Europe, which has led the way in efforts to lower emissions, electricity price rises are now prompting reconsideration by policymakers.

## **Australia's current policy mix is suboptimal and inefficient**

The main reasons for this are:

- 1) The current policy mix carries unpredictable risk, especially for investors.
- 2) Many measures overlap, most notably the RET, the pricing and taxation of carbon and gas development policies.
- 3) State conflicts of interest on ownership have not been addressed, hence the pricing issues remain politicised.
- 4) Current policies lack an adequate level of oversight and transparency.
- 5) Current policies do not enjoy the trust of industry and the community.
- 6) Current policies lack stability – unpredictable policy change does not support the long-term decision making required to achieve the transition to a low emissions economy.
- 7) The current policy approach is overly prescriptive, complex, and therefore costly to comply with and administer, from the perspective of both industry and government.

## **What is now required? An independent, well-designed institution**

Energy security and affordability are at the heart of Australia's economy, and energy production and use are central to our emissions profile. While international negotiations over a global carbon price continue, Australia needs to work from the bottom up and co-ordinate its policy development with its key trading partners, progressively interlinking its carbon reduction measures with them.

To achieve this and to develop an optimal and affordable package of domestic measures, energy policy must be fully integrated with all energy-related aspects of climate policy. Neither should be subjugated to the other.

There are numerous options for integration of energy and energy-related climate policies but the Energy Policy Institute of Australia considers that the establishment of an independent National Energy Commission will provide the most sensible, balanced and effective mechanism for Australia to make the successful transition to a low-emissions economy over time. At the same time, policymakers will be able to pursue all other aspects of climate policy that are not energy-industry related, such as in the agricultural industry.

A National Energy Commission need not, and must not, impose an additional level of bureaucracy on the Australian economy. It should be required to work with all existing institutions and key stakeholders, and they with it, to eliminate excessive levels of bureaucracy, to simplify and reduce the burden of regulatory overlaps and inefficiencies, to promote competitive and efficient energy markets, to build a more secure climate for investment, and to facilitate the affordable transition by Australia to a sustainable, low-emissions economy.

Further work will need to be undertaken to fully scope the Commission's operating model and governance structure, including delineation of the opportunities, both through the COAG process and otherwise, to rationalise or better align the responsibilities of the multiplicity of existing energy market and climate policy institutions. The Reserve Bank of Australia and the Productivity Commission provide precedents.

Scoping work should be undertaken collaboratively with all key stakeholders. To ensure that their terms are not disrupted by the political cycle and to provide continuity, Commissioners should be appointed on a rolling basis.

Alternative or additional mechanisms to integrate energy and climate policy include making a single minister at Commonwealth level responsible for all energy policy and creating a single enlarged department to administer energy policy, the Renewable Energy Target, and all related energy policy settings. Through the COAG process, the States may wish, for example, support the transfer of the functions of the Australian Energy Regulator to a National Energy Commission. Completion of the process of privatisation of State-owned energy assets would also materially enhance the competitiveness of energy markets.

## **Conclusion**

**The Institute calls for a National Energy Commission to be established as an independent policymaking body as soon as possible.**

**The Commission should be established by legislation, ideally with bipartisan support.**

**Further work will be needed to fully scope the objectives, the operating model, the governance structure and the governance and stakeholder participation rules, with a view to ensuring that all consultative and decision-making processes are predictable and transparent, and that the Commission is launched with the support of all key stakeholders. Anything less would be a loss of an historic opportunity for the nation as a whole.**

Further information please contact ..

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