

Energy in
action.®



Committee Secretary
Senate Standing Committee on Rural & Regional Affairs & Transport
PO Box 6100
Parliament House
CANBERRA ACT 2600

7 November 2014

Dear Committee,

Inquiry into Australia's Transport Energy Resilience and Sustainability

AGL Energy Ltd (AGL) welcomes the opportunity to provide a submission to the Senate Rural and Regional Affairs and Transport Committee on energy resilience within the Australian transport sector.

AGL is one of Australia's largest retailers of gas and electricity with more than three million customers in Victoria, New South Wales (NSW), South Australia and Queensland. AGL operates across the supply chain with investments in energy retailing, coal-fired electricity generation, gas fired electricity generation, renewable and upstream gas exploration and production projects.

Contribution of the transport sector to the Australian economy

Australia is the sixth largest country by landmass in the world. The nation is heavily dependent on its transport networks to distribute local and imported products to, and to provide services for, disperse populations – including essential items such as food, medical supplies and fuel.

Australia's transport sector is vital to the economy, underpinning and facilitating an enormous range of industries and services. The transport, postal and warehousing sectors contribute around \$70 billion¹ to the Australian economy annually, approximately 5 per cent of Gross Domestic Product. In 2009-10 road transport alone contributed \$20.5 billion of gross value added to the Australian economy.

Transport is an extremely energy intensive sector

Transport is also a very energy intensive sector, consuming over 1,500 PJ per annum, accounting for 38 per cent of Australia's energy consumption. In 2011-12, over 95 per cent of energy used for all transport modes was crude oil-derived liquid fuels (with Liquefied Petroleum Gas (LPG) the most significant alternative fuel comprising 2.7 per cent). Over three quarters of transport energy in Australia is used in road transport, dominated by liquid petroleum fuels.

¹ Australian Bureau of Statistics, Gross value added for FY2011

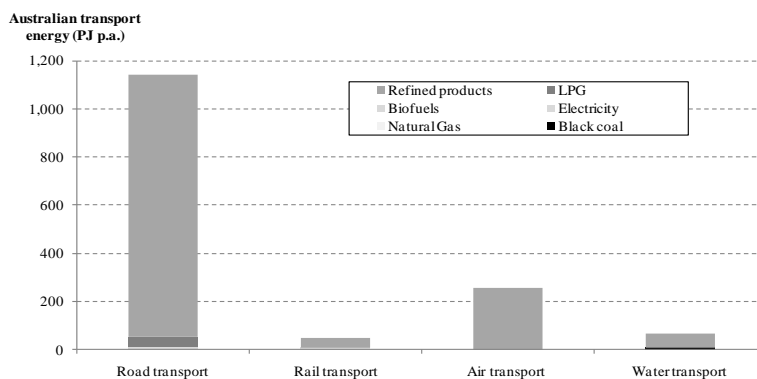


Figure 1: Australian annual transport energy consumption (ABS)

This makes transport the second most energy intensive industry in Australia, behind manufacturing, where energy intensity is defined by the volume of energy (TJ) per unit of output (\$GVA) as shown in Figure 2. With such a proportionally high reliance on energy as an input to operation in the manufacturing and transport sectors, both are exposed to price and supply shifts in key input fuels, such as diesel.

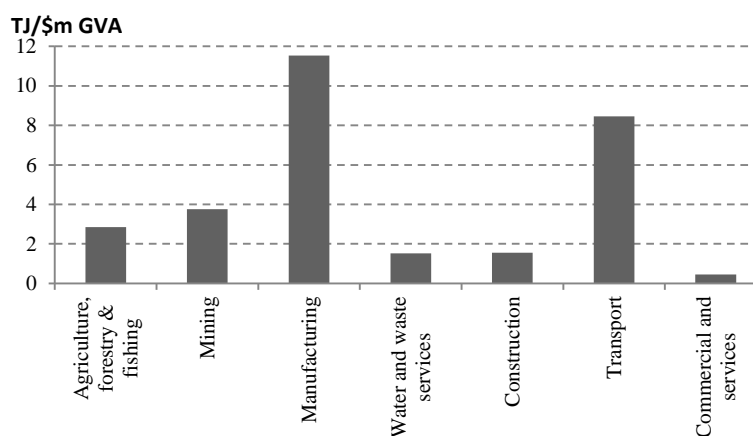


Figure 2: Energy intensity of Australian industries (TJ/\$GVA (mil)) ABS 2013

In recent years Australian oil and condensate production has decreased significantly, with output from mature fields (including the Gippsland and Carnarvon Basins) declining over time. Estimated production in 2013 is almost 40 per cent below the peak (over 1400 PJ) in 2001. Over the same period, Australia's consumption of oil has grown 39 per cent. Without the discovery and commercialisation of substantial new oil reserves, this supply-demand imbalance in Australia will become more pronounced, with Australian production projected to be equivalent to only 12 per cent of consumption by 2035 (BREE, 2012).

Furthermore, Australia's quarterly imports of fuels and lubricants reached \$10.9 billion in December 2013, more than a 300 per cent increase since 2003 and representing 13 per cent of the value of Australia's total imported goods and services. With the projected rises in petroleum import volumes and oil prices, the value of imported fuels could increase in real terms by over 20 per cent by 2025 and 40 per cent by 2030².

² Australian Bureau of Statistics 5302.0 Balance of Payments



Productivity gains from diversifying the fuel mix

Greater diversity along the fuel supply chain for the Road Transport sector has multiple benefits, including: increased productivity gains for businesses, increased energy security, improved environmental and air quality outcomes and broader economic gains for the Australian community.

Greater diversification of the fuel supply chain and the shortening of the fuel supply chain can reduce the risks of supply interruptions (and price risk) and the potential flow on impacts to businesses and households.

Alternative transport fuels deliver multiple benefits, not all of which can be captured by the private sector. Many of the benefits outlined above are clearly public benefits, the responsibility of which falls within the realm of Government to assess and develop policy frameworks commensurate with the costs and benefits.

Whilst many Governments internationally have established policy frameworks to reduce dependency on a single fuel or diversify the local fuel mix, Australia is yet to take this step.

Development of a comprehensive Transport Energy Plan

The challenge for policymakers in considering the costs and benefits of alternative fuels is that the area often falls across multiple portfolios: Industry, Environment, Regional Development and Agriculture. To properly consider the benefits of projects, they need to be seen as a whole, rather than only delivering one particular outcome, such as emissions reductions or regional development.

Policy levers also fall across State and Federal Government jurisdictions, further hindering co-ordinated and clear policy development to support industry investment.

AGL supports Governments undertaking a full review of barriers along the supply chain to the development of alternative transport fuels projects in Australia. This review should incorporate all relevant portfolio areas and consider: fuel supply source, vehicles, fuel and end user regulations and incentives. Policy mechanisms to be considered should include: Minimum standards for passenger vehicle and commercial fleets; innovation funds for heavy vehicles to encourage the local commercialisation of some alternative fuel technologies, being widely used elsewhere; and end user incentives.

Technology innovations in passenger, commercial and heavy-fleet vehicles are occurring at a rapid pace internationally both through electrification and gaseous technologies. Ensuring Australia is well placed to where possible maximise the benefits of these technology shifts should be considered, given the significant reliance on road transport in Australia.

Yours sincerely,

Tim Nelson
Head of Economic Policy and Sustainability, Corporate Affairs