

Senate Finance and Public Administration Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Additional Estimates 13-16 Feb 2012

Prime Minister and Cabinet Portfolio

Department/Agency: Department of the Prime Minister and Cabinet

Outcome/Program: 1.1.1 Domestic Policy

Topic: Energy (market investment)

Senator: Senator Payne

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Question:

The CRC in its recent report on progress under the National Seamless Economy reforms again emphasised that the only milestone under the Energy (Market Investment) reform is for the Ministerial Council on Energy to receive a report on a framework for assessing the adequacy of energy market investment. Not only was this milestone not completed, but the CRC considered that completion may not be sufficient to achieve the stated output of ensuring adequate energy market investment. In light of the huge changes in the energy market that will come as a result of the carbon tax, and the CRC's warning that adequate energy market investment will be particularly important given the structural shift in the energy supply mix required, what measures are the Commonwealth Government taking to ensure that this outcome, necessitated by its unwanted carbon tax, is achieved?

Answer:

Investment decisions in the energy market are informed by the process of price discovery through spot and contract markets, which signals how resources should be allocated in the short and long term to deliver efficient investment. The National Electricity Market provides a transparent and liquid market by which this process can be achieved.

Investments in this sector are typically very long term and large. The Commonwealth government's draft *Energy White Paper*, released by the Minister for Resources and

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Energy in December 2011, sets out a series of proposed priorities to address challenges confronting Australia's energy sector. The four priority areas for further action are:

- strengthening the resilience of Australia's energy-policy framework;
- reinvigorating the energy market reform agenda;
- developing Australia's critical energy resources – particularly gas; and
- accelerating clean energy outcomes.

The draft *Energy White Paper* aims to reinvigorate the energy market reform agenda by working with the states and territories through established COAG Ministerial Councils to pursue a range of reforms, including further privatisation of energy assets and the removal of retail price regulation to increase efficiencies and remove distortions in markets that deter private sector investment and are harmful to consumers' interests.

In relation to the COAG Reform Council's (CRC's) comments, a comprehensive reporting framework to assess the adequacy of investment in energy markets is already in use by governments and industry. The Australian Energy Market Operator publishes annual short and longer term supply and demand forecasts. These are quoted in the CRC's report.