



1 June 2010

Senate Select Committee on Fuel and Energy
The Senate,
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Parliament House,
Canberra, ACT 2600
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**Australia's Future Tax System: Report to the Treasurer
(the 'Henry' Tax Review)**

The Energy Supply Association of Australia (esaa) offers the following comments to the Committee on its request for further information on the impact of the Henry Tax Review and the Government's response on fuel and energy security.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ over 52,000 people and contribute \$16 billion dollars directly to the nation's Gross Domestic Product.

The Committee specifically seeks the Association's view on impact of the Federal Government's proposed Resource Super Profits Tax (RSPT) on the energy supply sector (both in terms of fuel and energy security and impact on jobs) as well as any views on the proposed Resource Exploration Rebate.

Of particular concern for the energy supply industry from the implementation of the RSPT will be what impact the proposed policy may have on energy prices. Australian energy prices are increasingly becoming subject to upward pressure due to a combination of factors including increasing population and load growth, the need to replace ageing network infrastructure and meet the Federal Government's emissions reduction and renewable energy targets as well as comply with a plethora of divergent state based feed-in tariffs and energy efficiency measures.

esaa observes that, to the extent that the RSPT serves to increase the input costs of coal and gas for electricity generation (and gas as a direct domestic energy source), it would be rational economic behaviour to expect industry participants to attempt to pass through such costs to end consumers.

esaa notes that the RSPT has not been developed as proposed legislation but rather the Government has committed to work on many of the specific technical design details in consultation with industry ahead of developing exposure draft legislation at a later date. A Resource Tax Consultation Panel has been established to lead this process and preliminary consultation is currently underway with the release of an issues paper expected in late July 2010.

As a result there are current difficulties in determining the potential magnitude of the impact of the proposed RSPT on the energy supply industry without a number of outstanding details being resolved via the consultation process. As highlighted in the initial Government briefing documentation, a key issue which will need to be resolved is the determination of appropriate methodology to determine the value of a resource for taxation purposes. This is particularly problematic where operations exhibit a high degree of vertical integration between mine and production facility as is sometimes the case in the electricity generation sector.

However, esaa has commissioned detailed analysis of the proposed arrangements and expects to have further information to inform its positions within the coming weeks. To the extent this information can be finalised and provided to the Committee within the current timeframe for its final report the Association will endeavour to do so.

In regards to the proposed Resource Exploration Rebate the Association welcomed the announcement to extend the definition of exploration expenditure to include geothermal exploration. esaa has long advocated for such amendments and considers the Government should work with industry to ensure the specific processes and costs associated with geothermal exploration are well understood to ensure the benefits of the policy are fully realised.

If you have any questions or we can be of further assistance in this matter in any way, please contact me on.....

Yours sincerely

Brad Page
Chief Executive Officer