



**Submission to the Uranium Mining Processing and
Nuclear Energy Review Taskforce**

**Uranium Mining Processing and Nuclear
Energy Review**

Response to Issues Paper

18 August 2006

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1. Overview

The Energy Networks Association (ENA) welcomes the opportunity to comment on the Issues Paper of the Taskforce on the Uranium Mining Processing and Nuclear Energy Review (UMPNER).

ENA members distribute energy from a range of fuel sources, but it is acknowledged that the more reliable, safe and cost-effective energy sources there are, the more diversified the fuel mix will be.

Meeting Australia's current and future energy needs also requires the ability of energy network businesses to be able to maintain and upgrade Australia's critical and ageing energy networks. To ensure this ability, several key legislative and regulatory prerequisites need to be met:

Possible actions by the Federal Government:

- whilst nuclear power plants are potentially 30 years away, we have urgent energy infrastructure issue that need to be addressed today.
- adopting a proven regulatory model that clearly defines the role of the regulator and reduces the overall cost of regulation such as the best practice model within the current Gas Code
- passing energy legislation and regulation that creates a positive environment for investment and network innovation
- clear, consistent, concise and timely energy legislation that creates investor confidence and thereby encourages long-term investment in energy network businesses

The ENA considers the following issues need to be considered to ensure Australia's energy distribution industry is adequately structured to allow for future energy demand and supply:

- Energy distribution networks would ultimately distribute nuclear energy to Australian households and businesses through infrastructure valued at over \$35 billion
- A key potential benefit of additional sources of energy in Australia would be diversification of supply sources
- The capital investment required to integrate nuclear energy into Australia's energy grid would be significant but confined to a relatively small number of assets linking new generation plants to the existing grid. The much larger issue is ensuring that Australia has a regulatory system in place which ensures adequate incentives for ongoing investment, expansion and reinforcement of the over 800 000 kilometres of energy distribution network which directly serve customers, both business and households. Without the network connection there is no nuclear plant.

Australia's electricity demand is projected to increase by 47% on 2004 levels to 2020. In an environment where both supply and demand of electricity is increasing, diversified range of reliable, safe and cost effective fuel options ensures that the long-term future energy needs of all Australians can be met. How the networks are directed, incentivised, and given a genuinely long-term framework to accommodate nuclear (and any other changes) is what is of interest to network owners and operators.

This submission primarily responds to several questions raised by the Issues Paper relating to nuclear power economic issues as potentially affecting the electricity distribution industry. These are:

1. What is Australia's electricity supply and demand outlook?
2. What, if any, are the implications for the national electricity market of nuclear power use in Australia?
3. How might any implications be addressed?

2. Background

This submission responds to the *Issues Paper* released in June 2006 by the Taskforce on Uranium Mining Processing and Nuclear Energy Review prepared by the whole-of-government Taskforce Secretariat

The Energy Networks Association is the national representative body for gas and electricity distribution network businesses. The members of the ENA include:

- ActewAGL
- AGL Energy Networks
- AlintaGas Networks
- Aurora Energy
- Citipower
- Country Energy
- ENERGEX
- EnergyAustralia
- Envestra
- Ergon Energy
- ETSA Utilities
- Integral Energy
- Multinet Gas
- NT Power and Water Corporation
- Powercor
- SP AusNet
- United Energy Distribution
- Western Power

Energy network businesses deliver electricity and gas to over 12 million customer connections across Australia through approximately 800 000 kilometres of electricity lines and 75 000 kilometres of gas distribution pipelines. These distribution networks are valued at more than \$35 billion, and each year energy network businesses undertake investment of around than \$5 billion in network operation, reinforcement, expansions and greenfields extensions.

3. What is Australia's electricity supply and demand outlook?

Electricity demand is expected to increase by 47% on 2004 levels to 2020. An annual growth rate in new capacity of around one per cent is expected over the next nine years as the supply-demand balance tightens.¹

This is consistent with recent a statistical report released by the Australian Bureau of Statistics which shows that the real household final consumption per capita of energy has

¹ esaa, *Electricity Gas Australia 2005*, page 6, available at www.esaa.com.au

increased from 1994-1995 to 2004-2005 by 2.4% per annum. This equates to a total increase of 24% between 1994-2004. Individual expenditure which includes washing machines, computers and other household electrical items has increased between 1994-2004 on average by 2.7% per annum. For example, the number of households with air conditioning has risen from 33% to 60% between 1995-2005, and households with computers totalled 67.8 per cent, an increase from 44.8% in 1999.²

4. What, if any, are the implications for the national electricity market of nuclear power use in Australia?

ENA members distribute energy from a range of fuel sources, but it is acknowledged that the more reliable, safe and cost-effective energy sources there are, the more diversified the fuel mix will be. In an environment where both supply and demand of electricity is increasing, a diversified range of fuel sources ensures that future energy needs can be met, resulting in enhanced energy security.

Australia's economy for the first time will grow to \$1 trillion dollars in 2006-07 which places new challenges on network businesses to deliver the energy needs of Australian households and businesses. In turn, increased demand and supply of electricity requires Australia's electricity distribution infrastructure to be expanded and upgraded. This investment is needed to support the efficient and reliable supply of electricity. Energy network businesses expect to spend over \$30 billion of capital over the next five years on expanding and upgrading network infrastructure.

5. How might any implications be addressed?

For energy network businesses to be able to maintain and upgrade Australia's critical and ageing energy networks, and thereby ensure that Australia's electricity networks are able to meet Australia's future needs of electricity demand, the following legislative and regulatory elements need to form part of the governance of the energy distribution industry:

A streamlined best-practice model for regulation – adopting a proven regulatory model that clearly defines the role of the regulator and reduces the overall cost of regulation.

The ENA considers it essential that the energy regulatory regime adopts an efficient, effective and streamlined model for regulation. The ENA has found that a best practice regulatory model such as in operation under the National Gas Code meets all of the above criteria.

The regulatory model under the existing Gas Code is a model for setting fair and reasonable terms and conditions of third party access (including access prices) for monopoly infrastructure. The model is based on the premise that it is the regulated business' obligation to lodge proposed terms and conditions of access, and it is the regulator's task to assess these proposals against the requirements of the regulatory framework.

² Australian Bureau of Statistics, *Measures of Australia's Progress 2006*, found at www.ausstats.abs.gov.au

This model provides numerous benefits to the regulatory process. The model:

- Clearly defines and simplifies the role of the regulator by focusing their task on assessing the reasonableness of the access proposal and minimises the potential for unintended micro-management by the regulator
- Is a tried and proven model, it currently exists under the Gas Code and has proven to be an effective and efficient model
- Results in more streamlined and timely regulatory outcomes – with recent round of decisions under the Gas Code taking 12 months compared to 19 months under the Electricity Code's 'regulatory determination' model
- Gives the service provider freedom to be innovative and responsive to customer needs within the constraints of reasonable ranges for input parameters and economic principles for developing prices.

The ENA views it essential that a regulatory process is adopted which will be timely, and allow efficient and effective third party access arrangements. This will provide a platform for distribution businesses to be able to put forward regulatory proposals that will include all the necessary plans for network businesses to deliver the energy needs of every Australian. The best practice regulatory model described above allows this to occur.

Energy legislation and regulation that creates a positive environment for investment and network innovation

Several key elements need to be present within the national energy law and regulations to encourage investment and network innovation within all energy network businesses. These include:

- A stable regulatory regime in ensuring that distribution businesses are able to invest with confidence in the network over the medium to long term.
- Reduced or removed economic regulation of emerging competitive or contestable components of energy distribution businesses.
- A strengthened incentive-based regime, which relies on established efficiency mechanisms to reveal efficient costs.
- Pricing principles which provide clear guidance for regulatory decision-making into the future. Specific direction that both commercial *and* regulatory risks should be considered in decisions on returns on capital
- The role of regulation is clearly defined, as it is inappropriate for the regulator to micro-manage the distribution business. Any increases in the role and discretion of the regulator increases the regulatory risks for the distribution business.
- Providing a market responsive investment environment for network infrastructure and new technologies.
- Investors in network businesses need to be provided with a competitive rate of return commensurate with the risks it faces, and other investment alternatives. Other key areas of importance to investors include regulatory certainty, predictability and accountability; and
- For the purposes of predictability, it is also necessary for the regulator to take into account its previous decisions, significant changes between regulatory

periods will have a negative impact on investor confidence and business decision making, regulatory precedent should play an important role in regulatory decision making.

Clear, consistent, concise and timely energy legislation that encourages long-term investment in energy network businesses

Currently, the ENA has serious concerns as to when the Ministerial Council on Energy legislative package will be released. The legislative package was due for release at the end of July, however, industry has been informed that delays are likely. The longer the legislative package is postponed, the more uncertainty investors and all other stakeholders face.

In addition to timeliness, energy legislation and regulations needs to be clear, consistent and concise. This is crucial for the future success of the energy distribution industry as it will result in benefits to consumers, industry, investors and the wider community. Meeting Australia's current and future energy needs requires the ability of energy network businesses to be able to maintain and upgrade Australia's critical and ageing energy networks. To ensure this ability, it is recommended that the following steps be taken by Government in support of this work:

Possible approach

- In introducing new regulation or amending already existing regulation, a cost-benefit analysis should be undertaken. If the regulation cannot be justified on a cost-benefit analysis, then it should not be applied.
- All information and reporting requirements need to be scrutinised against a necessity test. That is, without the information, will the regulator be unable to exercise its regulatory functions?
- All regulation before being passed should be checked for regulatory duplication or inconsistency.
- The definitions within legislation and regulations to be applied by businesses should be simple and consistent.
- All legislative and regulatory changes should include timely and genuine consultation with industry. Industry participants can provide their practical insights into matters such as the necessity or workability of the regulations and other issues as discussed above.

The Energy Networks Association
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