

MINISTER FOR INDUSTRY, TOURISM AND RESOURCES

Committee for Economic Development of Australia

State of the Nation Conference

Hyatt Hotel, Canberra

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"Energy Reform in Australia – Ensuring our Supply Security"

Thank you. Energy reform and the energy future is obviously a topical issue at the moment. The nuclear debate is slowly but surely gripping the country and the government will assist that debate. It's a debate that can hardly be avoided when we happily hold and export so much of the world's uranium. Australia is – like it or not – already part of the nuclear energy cycle. Kim Beazley may pretend we can ship it out and ignore what uranium is used for. But John Howard has never in his political life shied from a debate just because the politics are difficult and the issues complex. The politics will be difficult to manage through this debate – whether it takes 10 months or 10 years. But I really don't think in 12 months time, the nuclear energy debate will be the dominant issue many assume it will be. Nevertheless it is a debate I welcome – and so should the rest of the country.

Having been the Energy Minister for almost 5 years now I know only too well that energy matters usually only make the headlines when there's a shortage. However I think public opinion is finally turning, there is a growing recognition of what underpins our lifestyle and business in Australia. That's cheap and plentiful energy. But it can't be taken for granted. And, for that reason, I am pleased to report that the 'state of our nation' is that Australian governments and industry are working hard to ensure a well-supplied energised future.

Australian situation

Australia is lucky to have a high degree of natural energy security. We hold tremendous endowments of crude oil, coal and gas. But increasingly the government is investing in renewable sources to supplement that core of fossil fuel energy. And working closely with the industry to develop greater energy efficiencies – particularly with the bigger users who are now on a regular energy audit scheme. Australia's energy strengths include our good access to world markets and an extensive infrastructure for delivering power, gas, and transport fuels. Can any country eliminate all supply disruptions? Probably not. Energy security requires complex planning for a variety of resources and interconnected infrastructure. It also requires a robust market which is well-placed to manage contingencies. That is part and parcel of our energy market reform.

Energy Market Reform

The importance of continuing our reform agenda is the common driver to the Ministerial Council on Energy – which is just the collection of all state, territory and federal energy ministers. We meet two to three times a month and the Council is actually an effective, relative harmonious roundtable of different political interests. In 1998, energy reforms created the national electricity market along the eastern seaboard. This paved the way for the interstate trading of gas and electricity to manage short-term constraints in different jurisdictions. But it certainly couldn't have been considered a truly national energy market. The Ministerial Council has been concerned with developing an authentically national market – that minimises the regulatory jungle for potential investors.

We've established two national governing bodies – the Australian Energy Market Commission and the Australian Energy Regulator – to replace a web of some 13 State-based regulators. Both the generation and the transmission of electricity has already been transferred to the national framework. With the electricity retail and distribution functions to follow in 2007, as will the regulation of gas. In short, Government owned, vertically integrated monopolies are being replaced with competitive arrangements. This light-handed regulatory approach is already delivering benefits to consumers. In 2005, the IEA found that our electricity prices were 38%

cent below the IEA average and praised Australia for having some of the lowest energy prices in the world. We will continue to build on and enhance existing market reforms.

Later today I will introduce a new Bill to Parliament which supports new incentives for investment in gas infrastructure – as part of the government's response to the Productivity Commission's review of the gas access regime. These 'greenfields' incentives will allow proponents of new pipelines to seek exemptions from regulation for their first 15 years of operation. Energy reforms such as these are vital to stimulate investment and ensure that we are able to meet our rising energy demand. They will allow pipeline projects to get the regulatory certainty they need to get off the ground.

On top of this, the Ministerial Council is looking to implement effective demand side response mechanisms for the electricity sector. These mechanisms will assist in reducing peak demand which is often the cause of supply disruptions on hot summer days. There's also the proposal to have a national-roll out of smart meters to improve pricing signals for consumers and investors.

Responding to supply disruptions

Efficient governance and competitive markets are central to the security of our energy. But at the end of the day, most people are only concerned with seeing the lights come on when they flick the switch. So to prevent and manage disruptions in our electricity supply, we established the National Electricity Market Management Company. NEMMCO uses some of the most sophisticated monitoring and analysis tools in the world to centralise oversight of the power system.

It provides on-line, real-time understanding of the health of Australia's grid. And with the ability to isolate disturbances as they occur, NEMMCO can help prevent the kinds of cascading blackouts that have occurred around the world in recent years. Similarly we have the Gas Emergency Protocol to manage gas shortages. We all remember the economic and social effects of the disruptions at the Longford gas processing plant in 1998 and the Moomba plant in 2004. Certainly Victorians would remember the cold showers. The Longford incident alone halted the supply of gas to Victoria and parts of South Australia and NSW for two weeks. It cost our economy an estimated \$1.3 billion.

To manage such risks, we know have a comprehensive emergency response Protocol to manage major gas supply shortages affecting multiple jurisdictions. This involves a National Gas Emergency Response Advisory Committee to advise on the market's ability to manage supply shortages. If government intervention is required, the Committee will provide expert advice to Ministers on how best to manage major supply shortages. In the unlikely event of a national fuel shortage, we have developed and tested the *National Liquid Fuel Emergency Response Plan*. The measures contained in the plan aim to minimise Government intervention as far as possible.

Industry has proven its ability to respond to disruptions by finding new ways to source additional stock or by using market forces to reduce demand. However, if necessary, the Government would work with oil companies to encourage voluntary restraint among the public. We might also consider stronger measures such as reserving bulk supplies for 'essential' users or introducing retail sales controls.

Protecting Energy Infrastructure

In response to security issues, including terrorism, the Energy Infrastructure Assurance Advisory Group allows government and industry to share information on threats to, and weaknesses in, our energy infrastructure. This Group is now mapping all of our national energy supply chains, including the links between electricity, gas and liquid fuels. This will enable us to identify vulnerabilities and single points of failure in the energy system. We've also recently amended the *Maritime Transport Security Act 2003*, to cover our vital offshore oil and gas facilities. The *Act* requires each facility to establish security plans modelled on the ones used for some ports and ships. To discourage terrorist activity, the Joint Offshore Protection Command has been set up to conduct rigorous security patrols and aerial surveillance of our offshore facilities.

Conclusion

In conclusion, energy supply security is a challenge that all countries face and we are doing better than most. Having a stable political and economic environment to start with is a big headstart when you look at some of our gas competitors, particularly. But we can't be complacent. Security in general is an ever-evolving field. Energy assets complicate the issue with challenges of increasing demand, decreasing availability and greater competition for investment. We've made significant progress in securing our supplies of energy. And we've got a solid program of energy market reform. But the key to planning for and preventing supply disruptions remains communication between different levels of government and between governments and industry.

I believe we currently have a high degree of energy security but that will only be maintained with consistent reviews of the various protective measures. The government will fulfil that role but energy security does not stop with Canberra. I trust the industry won't wait until there's an incident to prove the importance of insuring our energy assets. Our continued way of life and business hinges on Australia's ability to provide business and homes with ongoing access to reliable and affordable energy.

Thank You.