

# Policy Update

## Scope:

**This policy update provides a brief and general review of the most recent policies, strategies and initiatives announced in the lead up to the Federal election.**

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## In Focus

### Central Elements of Effective Policy Making

A central role for Government is to set the policy framework for its constituents. This is not an easy task, especially if we take into account the constrained timelines typically associated with these processes and the need to balance potentially divergent views from different stakeholders. Recent events in South Australia where the whole state experienced a blackout are a timely reminder of the complexity of this task. It also reinforces the need for policy makers to thoroughly interrogate the reasons for and consequences of its policy response given the potential consequences for consumers and economic performance.

The National Electricity Market (NEM) covers Australia's eastern and south-eastern coasts and comprises five interconnected states: Queensland, New South Wales (including the Australian Capital Territory), South Australia, Victoria, and Tasmania. The physical delivery of electricity to homes and businesses is provided via the NEM's transmission and distribution network, which carries power from electricity generators. A national framework comprising policy development, governance, market operation, economic regulation of monopoly services and access, supports the physical delivery of an efficient, safe and reliable electricity service.

Despite this interconnected market, at times state governments have made policy decisions primarily focused on the attainment of outcomes in their jurisdiction. An example of this is most clearly demonstrated in state government renewable and greenhouse abatement policy approaches, where the States have taken their own policy direction without necessarily assessing the consequences over the other interconnected states and consumers. This is illustrated by the Victorian Government's announcement that 25% of electricity generated in the State will come from renewable energy by 2020, with this target to rise to 40% by 2040. There have also been examples of state governments seeking to differentiate themselves when leadership at the national level has been viewed as wanting or non-existent. Such actions are not necessarily dissimilar to what occurs for other industries, except in the case of energy it is part of a national electricity market and as such the impact of policy decisions are not contained to their jurisdiction.

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This occurred over the last 15 years when each jurisdiction sought to have its own policy response to increase the uptake of solar photovoltaics (PVs), such as feed-in tariffs and abatement schemes i.e. green certificate schemes. We have also seen jurisdictions set specific targets aimed at driving a change in the generation fuel mix of their jurisdiction; despite what may be achieved via commonwealth schemes (e.g. Renewable Energy Target) or market forces.

In the case of South Australia, the state government took a strong policy stance on increasing the share of renewables by encouraging investment in renewables through numerous policies and incentives such as the Federal Mandatory Renewable Energy Target as well as tax rebates. As a result, South Australia moved from having almost no large scale renewable generation a decade ago to having almost 40% of its electricity generated from wind and solar power. While these policies allowed South Australia to achieve its renewable energy target faster than expected, the rapid transformation of South Australia's generation mix also raised some concerns related to the security and reliability of the state's power system.

Many views and opinions were raised in the days following the Black Start event in South Australia and no doubt much more is to come. Irrespective of the findings of the various investigations into this event, there are already some clear key lessons for policy makers, most of which are central elements for effective policy development:

- *Beware of misleading or incomplete assumptions* – avoid accepting the stated outcomes when analysing

policy proposals. Robust discussions about the 'how it will work' are essential. The current debate on the causes of the Black Start event reminds us that these types of conversations are needed. That is, exploring all facets of the issues such as the impact on infrastructure, supply, reliability, prices, etc. These discussions should occur upfront and should continue during the life of the policy, not only in times when things have taken an unexpected route.

- *Look for potential unintended consequences* – through stakeholder discussions, issues can be identified and analysed to ensure the policy response is appropriate. When industries, such as energy, are being transformed by innovation and rapid changes in consumer preferences, the importance of this step in the policy making process cannot be underestimated.
- *Identifying the preferred solution* – as policy makers it is essential to understand the trade-offs and impacts associated with the policy options under consideration. Evaluation tools such as cost benefit analysis (CBA) and Computer Generated Equilibrium (CGE) modelling can enhance the value of this process.

The coming months will provide a timely reminder to all levels of government on the importance of efficient, strategic and nationally coordinated policies. Hopefully these lessons will be heeded, as failure to do so, particularly in the context of the energy market, will inevitably impact energy security and reliability, which are vital to Australian jobs and quality of life.

### Economic & Regulatory Reform

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#### Environment and energy ministries merged

In July, Prime Minister Malcolm Turnbull announced his cabinet reshuffle, with one of the most notable changes being the decision to merge the environment and energy portfolios and the creation of a new department - the Department of Environment and Energy. As a result, the Department of Environment's previous portfolio will be expanded to also cover energy policy, the national energy market (including electricity and gas) and energy efficiency.

While renewable experts have welcomed the merger of the two portfolios, as it recognises the link between the energy sector and climate change policy, the appointment of Josh Frydenberg to the Ministerial portfolio has raised some concerns from the opposition and environmental groups due to his strong support for coal and nuclear power.

For more information, click [here](#)

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#### National Energy Productivity Plan

In late August, the Federal Government announced a joint commitment with the states to allocate \$18 million towards the National Energy Productivity Plan (the Plan).

The objective of the Plan is to achieve a 40 per cent improvement in energy productivity by 2030. The new resources will fund activities that will contribute to achieving this goal and include:

- \$2 million for Energy Consumers Australia to conduct research on making energy choices easier for consumers;

- Up to \$1.7 million for improving the energy efficiency of buildings;
- \$3.2 million for the new prioritisation strategy for accelerating appliance energy efficiency standards;
- \$2.3 million for related work as part of the Gas Supply Strategy; and
- \$6 million to develop an Energy Use Data Model to support energy forecasting.

For more information click [here](#).

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#### Tax

##### *Small Business Restructure Rollover*

The Small Business Restructure rollover took effect on July 1. This measure was announced in the 2015-16 Federal Budget as part of the Growing Jobs and Small Business package. The roll-over will allow small businesses to alter their legal structures without capital gains and income tax implications by disregarding gains

or losses arising from the transferring of business assets. These provisions do not extend to other taxes and issues that may result from a roll-over, such as GST or Stamp Duty.

For more information, click [here](#)

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### *Ten-year enterprise tax plan*

On 1<sup>st</sup> September, the Federal Government introduced into Parliament the Ten-year enterprise tax plan. The legislation aims to reduce the small business corporate tax rate to 27.5 per cent for 2016 – 2017. The annual turnover threshold for small businesses will increase from \$2 million to \$10 million. Other key elements of the plan are:

- Incremental increases of the small business entity turnover threshold from \$10 million to \$25 million in 2017-18, \$50 million in 2018-19 and \$100 million in 2019-20.
- Reduction of the tax rate on all companies to 25 per cent by 2026-27.
- Incremental increases to the tax discount for unincorporated small businesses over 10 years from 5 per cent to 16 per cent. The first increase will be to 8% and will remain constant until 2024-25 where it will then increase to 10 per cent and 13 per cent in 2025-26; reaching a permanent discount of 16 per cent in 2026-27.
- Reduction of the marginal rate of tax on incomes between \$80,000 and \$87,000 from 37 per cent to 32.5 per cent
- For more information, click [here](#).

### Productivity Commission

#### *Human Services Inquiry*

The Productivity Commission has been asked to undertake an inquiry into Australia's human services - including health, education and community services - with a focus on innovative ways to improve outcomes through introducing the principles of competition and informed user choice. The inquiry is in response to the Harper Competition Policy Review recommendation to investigate potential opportunities to apply competition principles to the human services sector.

The inquiry will be conducted in two stages. The first stage will deliver an initial report identifying services within the human services sector that are best suited to the introduction of competition principles. The second stage will make recommendations on how to apply increased competition, contestability and user choice to the services identified during the first stage.

The Productivity Commission released an Issues Paper for comment in mid-June, to inform the first stage of the review. This was followed by the release of a

preliminary findings report in late September which identified the following six priority areas for greater competition, contestability and informed user choice:

- Social housing
- Public hospital services
- Specialist palliative care
- Public dental services
- Human services in remote indigenous communities
- Grant-based family and community services.

The second phase of this inquiry will focus on these six areas with the view to release a Final Report (including recommendations) in November 2016.

For more information, click [here](#)

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### *Regulation of Agriculture*

The Regulation of Agriculture Inquiry aims to define priority areas for removing or reducing unnecessary regulatory burdens on farm businesses and identifying unnecessary restrictions on competition in the sector. In late June, the Productivity Commission released its draft report, highlighting the following issues raised by stakeholders:

- The need for regulation is not disputed by farm businesses, due to the benefits provided by some regulations e.g. biosecurity and food safety regulations. However, due to the number and complexity of regulations affecting farm businesses, farmers are seeking 'less burdensome' regulation to minimise the cumulative burden of regulation.
- Some regulations lack a sound policy justification and should be removed (e.g. state bans on genetically modified crops, barriers to entry for foreign shipping providers, etc.) while others need to be reformed so they can more fully achieve their policy objectives (e.g. native vegetation and biodiversity conservation regulations, animal welfare regulations, etc.)
- It is difficult for farmers to understand their obligations as regulatory requirements across jurisdictions are seen as inconsistent.

The Final Report on the inquiry will be released on 15 November 2016.

For more information, click [here](#)

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### *Trade and Assistance Review*

In late July, the PC released its Trade and Assistance Review for 2014 – 2015. The review estimates that assistance to industry was \$15.1 billion in gross terms and \$7.1 billion in the last financial year. This year's review also includes an analysis on how the size and nature of the assistance might be affected by recent developments such as the setting of renewable energy

targets, regional business investment grants programs and the industry assistance announced in the Agricultural Competitiveness White Paper and the Defence Industry Statement.

For more information, click [here](#)

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### *Data Availability and Use*

In November 2016, the PC released a draft report for its inquiry into Data Availability and Use. The draft report recommended a major overhaul of Australia's data policy framework. The PC also found the legal and policy

frameworks under which public and private sector data are currently collected, stored and used (or traded) in Australia are ad hoc and not contemporary.

The final report is expected to be released in March 2017.

For more information, click [here](#)

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### AEMO

#### *2016 Electricity Statement of Opportunities (ESOO)*

In August, AEMO released its Electricity Statement of Opportunities (ESOO). This year's report included scenarios of further generation withdrawals, reflecting Australia's commitment to reduce carbon emissions by 26 to 28 per cent below 2005 levels by 2030.

The report identified that the overall reliability of the system has improved over the years. However, this

could be at risk in the coming years if NSW, Victoria and South Australia continue to increase their reliance on renewable generation sources without taking additional measures to maintain reliability of the system such as increased interconnection in the market, battery storage or demand side management measures.

For more information, click [here](#)

### Queensland

#### 2016 - 2017 State Budget

In June, the Palaszczuk government released the 2016 - 2017 State Budget. This budget focuses on innovation, investment and infrastructure as means for job creation and builds on priorities and initiatives set out in last year's budget, including:

- a 4-year, \$40 billion investment plan in infrastructure, with a \$10.7 billion capital works program for 2016 – 2017. The program aims to support 31,000 jobs and provide essential transport, health, education, and energy and water infrastructure;
- an addition of \$225 million to the Advance Queensland innovation scheme, which includes the allocation of \$40 million to the Advance Queensland

Industry Attraction Fund to attract business investment from interstate, and support local businesses in reinvesting in areas such as biofutures, advanced manufacturing, defence and aerospace, biomedical and life sciences;

- an increased focus on regional Queensland, including a 2-year, \$100 million 'Back to Work' jobs package and a \$77.9 million rural assistance and drought package;
- \$15.3 billion funding on health and \$12.9 billion funding for education.

For more information, click [here](#).

### Transport

In September, the Queensland Government introduced its five-year plan to reform the personalised transport industry - *Queensland's Personalised Transport Horizon: Five Year Strategic Plan for Personalised Transport Services 2016-2021*.

The Plan introduces a new framework for these services and will be delivered in three stages. The first stage was introduced in September 5 and included:

- Legalization of ride-booking services for drivers holding a valid driver authorisation and safety inspected vehicle.

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- Cut of 80 regulations in order to reduce industry red tape.
- Exclusive access to rank and hail for taxis.
- Allocation of \$5.6 million to incentivise wheelchair accessible taxis.
- Establishment of a \$100 million industry adjustment assistance package to help taxi and limousine licence holders adjust to greater competition.
- In 2017, through Stage 2 of the reforms, the Government plans to introduce further regulatory changes in order to establish a new licensing regime and chain of responsibility for taxi and booked hire services.
- Stage 3 is set to commence in 2018 and it involves ongoing monitoring and review of the reforms.

For more information, click [here](#)

### Western Australia

#### Energy

In late June, the Government introduced a package of legislation into State Parliament that will enable Western Australia to adopt the National Electricity Law regulatory scheme. The legislative reforms apply to the South West Interconnected System and include the transfer of the regulation of Western Power's electricity network to the Australian Energy Regulator (AER).

These Bills - [the National Electricity \(Western Australia\) Bill 2016](#) and [the Energy Legislation Amendment and Repeal Bill 2016](#) – are intended to be passed by late November 2016 to allow Western Power to commence

the regulatory process under the national regulatory framework from December 2016 and for the AER's determination to apply from 1 July 2018.

The Government's proposed timeframe to transfer regulation of Western Power to the national regulatory framework by the end 2016, is unlikely to be achieved. In this event, Western Power will continue to be subject to the State-based regulatory framework.

For more information, click [here](#).

#### Water

The Urban Water Outlook 2050 – *Water for Growth* – has been released. The report provides the latest forecasts on urban water across the State and highlights the need to accelerate innovation in the public and private sectors to meet future demand.

As stated in the report, water demand in urban areas will grow between 45 and 80 per cent by 2050. To support this growth, the Government will focus on three main areas:

- supplying groundwater and surface water for now and the future;
- innovation in water use efficiency and water sensitive urban design;
- moving to water supplies for a drier climate

For more information, click [here](#).

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## Transport

In late July, the Department of Transport released *Transport @ 3.5 million*, which sets the vision and long term plan for transport infrastructure requirements and considers ways to use transport more efficiently as Perth's population approaches 3.5 million. The plan sets out the need for new infrastructure and expanded services (i.e. public transport, roads, active transport and freight), network efficiency measures and strategies to influence travel choices to ensure the maximum value of the future transport system is achieved.

- Some of the initiatives set out in the plan, such as the Forrestfield Airport Link and the Perth Freight Link, already feature in the 2016-17 budget Funding for initiatives like the Perth Light Rail, have been incorporated in the forward estimates. Public consultation regarding the Plan is open until 28 October 2016.

For more information, click [here](#).

## South Australia

### Water

In early July, the Department of Environment, Water and Natural Resources released an independent cost-benefit analysis on using the water from the Adelaide Desalination Plant (ADP) to offset reductions in water allocations for holders of irrigation entitlements.

The study found that, under a range of likely allocation price scenarios, increasing the use of the ADP is not a cost-effective measure to compensate irrigators. The

study also pointed out the optimal level of operating the ADP for the purpose of offsetting reductions is the current minimum one of 8 GL per year.

The South Australian government will continue to seek options to include the ADP into River Murray water allocations in 2016 – 2017.

For more information, click [here](#).

### Regulatory Reform

In mid-July, the South Australia Government launched the 'Simplify Day' initiative. The aim is to remove out dated and redundant legislation that makes it difficult to do business in the state.

'Simplify Day' will be held on 15 November and will focus on government rules and processes, compliance, competitiveness and removing duplication. Based on the outcomes of a public consultation process, the state

government will prepare a Bill which will be tabled in Parliament on this day.

A report outlining the results of the process will be published before 15 November.

For more information, click [here](#).

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### Waste management

In late September, the South Australian Government announced its first Waste and Resource Recovery Infrastructure Plan.

A Draft Plan has been released for consultation, with submissions due by 25 November 2016. In the Draft Plan the Government has projected future waste flows and identifies future infrastructure needs and investment opportunities under two different landfill diversion scenarios (i.e. 10 and 30-year timespans). Some of the key results under the scenarios are:

- In 10 years (under a moderate diversion scenario) \$129 million of investment in new or expanded waste and resource recovery infrastructure will be needed in the State in order to manage additional volumes of waste, resource recovery and landfill.
- In 30 years (under a high diversion scenario) \$919 million of investment will be needed to manage additional waste flows.

For more information, click [here](#).

### New South Wales

#### State budget 2016 – 2017

In late June, the NSW government released its 2016 – 2017 budget. The budget predicts a surplus of \$3.7 billion for the coming financial year which is mainly driven by stronger revenue growth than estimated in the 2015 – 2016 budget and includes the impact of the TransGrid lease transaction.

Average surpluses of \$2 billion are expected for the next four years. These estimated results do not include the impact of the long-term lease of Ausgrid and Endeavour Energy and may vary when these arrangements are finalised.

Some of the points of interest in the budget include:

- \$73.3 billion of capital expenditure over the next four years, which includes \$41.5 billion for transport

projects, \$4.5 billion for health projects and \$2.9 billion for education and training projects;

- \$13.7 billion of funding for education and includes \$1 billion commitment to build new schools and classrooms over a four-year period;
- \$22 billion for health initiatives, including \$1.6 billion for hospital upgrades and \$375 million to fund extra emergency department visits and additional elective surgeries;
- \$560 million over four years for the foster care system which includes \$370 million to meet the increased demand for foster care and \$190 million to initiate a reform of the system.

For more information, click [here](#).

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## Victoria

### Energy

#### *Renewable Energy Target*

In June, the Victorian Government set out new renewable energy targets following the announcement of the State's new greenhouse gas emission reduction target of net zero by 2050.

The Government has committed to ensure that by 2020 at least 25% of the electricity generated in the state will come from renewable energy. The target will increase to 40% by 2025.

The Government is expecting an investment of \$2.5 billion to build new large scale renewable

infrastructure adding up to 5,400 MW of new capacity. To achieve this, a competitive auction process will be set up as a mechanism for renewable energy developers to bid for the long term contracts they need to make their projects viable. These new projects are expected to create 3,000 additional jobs in the renewable energy sector by 2020.

For more information, click [here](#)

#### *Community Renewable Energy Projects*

As part of the Victoria's Renewable Energy Roadmap, the Government released in September an Issues Paper on community renewable energy projects.

Through this consultative process, the Victorian Government aims to gather views on how to address the following three main issues:

- The definition of community renewable energy projects;
- The payment-in-lieu-of-rates methodology for community scale projects;

- The planning arrangements for community scale wind farms.

The consultation period is open until 28 November 2016 and stakeholder views will be used to develop a Final Report with options and recommendations for Government consideration. The Final Report will be published in early 2017.

For more information, click [here](#).

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- Regulatory compliance and strategy
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- Competition policy analysis
- Expert testimony
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