Creating a more dynamic and resilient economy inquiry

Questionnaire response 23

Name: ENGIE

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1. Support business investment through corporate tax reform

1. What features of the Australian business environment have encouraged or restrained investment over the past 10 years?

The participant did not respond to this question.

2. What elements of the corporate tax system encourage and/or discourage investment and risk-taking?

The participant did not respond to this question.

3. Which parts of the corporate tax system do you find the hardest, or most time or cost-intensive to comply with? How could the compliance burden of the business/company tax system be reduced?

The participant did not respond to this question.

2. Reduce the impact of regulation on business dynamism

1. What areas of regulation do you see as enhancing business dynamism and resilience? What are the reasons for your answer?

ENGIE notes that the businesses ENGIE operates in are among the more heavily regulated in the Australian economy. In Australia, ENGIE operates an asset fleet that includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE agrees with the Productivity Commission's assessment that good regulation can help to achieve important economic and social objectives; however, excessive or poorly targeted regulation can impact business dynamism, resilience, and productivity. It is important that regulatory settings in the energy sector strike a proportionate balance between implementing the necessary safeguards and enabling a competitive market in which participants can innovate and deliver long-term value for consumers.

2. How has your regulatory burden changed over time?

ENGIE contends that the regulatory framework governing the energy sector has become significantly more complex over the past two decades. This is not without reason, as it reflects the evolution of the market from a traditionally one-sided system, where demand was met through consistent, dispatchable generation, into a two-sided market with a wider range of participants. Adding to this complexity, there are now several competing objectives in the National Energy Objectives that rule makers in the energy sector must consider in their decision-making, including emissions reduction targets, system security and reliability, and the long-term interests of consumers.

This evolution and resultant complexity described above are reflected in the increasing volume of rule changes over the past two decades, particularly under the National

Electricity Rules (NER). The NER has seen 66 new versions between 2005 and 2014, compared with 156 between 2015 and 2024, culminating in a 136 per cent increase in the number of amendments across the past ten years.

ENGIE acknowledges that some rule changes are necessary to ensure the framework remains fit for purpose; however, the frequency of these changes can have a cumulative net negative effect on productivity. Each new rule requires a significant allocation of resources to implement the necessary systems and processes to comply, resulting in further operational and administrative costs – often when the benefits to market participants are lacking. These resources could otherwise be directed towards more productive outputs.

3. What regulations do you find time-consuming, overly complex or otherwise constraining business dynamism and resilience? What are the reasons for your answer?

ENGIE's experience is that there is a growing number of rule changes in the energy sector that have sought to prioritise short-term measures without substantive evidence to demonstrate their effectiveness at addressing a market failure or promoting long-term outcomes. An example of an unproductive rule change was the introduction of the Wholesale Demand Response Mechanism.

Since the mechanism's commencement in late 2021, which was also preceded by a decade-long policy debate, only two demand response service providers have registered a combined total of 74 MW of response across 20 wholesale demand response units, substantially less uptake than what proponents envisaged. This level of output was dwarfed by the substantial $23–33 million in estimated implementation costs. The Australian Energy Market Commission is currently reviewing the mechanism to determine its future viability.

On a separate issue, ENGIE also notes that energy retailers may also face challenges with the increasing divergence between industry-specific rules that apply in different jurisdictions such as the Energy Retail Code of Practice (ERCOP) in Victoria and the National Energy Customer Framework (NECF) in New South Wales, Queensland, South Australia, Australian Capital Territory and Tasmania). This divergence has made it increasingly difficult to administer a uniform product offering without specific tailoring to each jurisdiction's framework. A simple example is that ENGIE's customer bill content and layout differ between the ERCOP and NECF regions depending on where a customer lives, even if they are on an energy retail contract with the same features. This differentiation increases compliance complexity and raises costs for retailers, which ultimately impact consumers.

Finally, ENGIE notes there are significant regulatory hurdles associated with the planning and approvals processes for new energy infrastructure, particularly around the duplication of processes, opaque governance arrangements, and differences across jurisdictions. These concerns are addressed in more detail in ENGIE's response to the Pillar 5 consultation paper and should be considered within this response, but is generally another example of how regulatory complexity can constrain business dynamism and resilience.

4. Can you share any specific examples of where you think a regulator has done a good or bad job of understanding and reducing regulatory burden on businesses and why?

As highlighted in this submission, ENGIE notes that the increasing frequency of reforms requires energy businesses to constantly manage regulatory change and update processes and systems for new compliance requirements, resulting in a heightened risk of potential non-compliance.

To help manage the number of rule changes, ENGIE considers it would be beneficial for rule makers in the energy sector to be required to conduct, where appropriate

• A thorough cost-benefit analysis before making a rule determination; and
• A post-implementation review within a specified period after the rule becomes effective, so that stakeholders can better understand the effectiveness of rule changes relative to the costs actually incurred in implementation.

The learnings from these processes may help ensure that future reforms can be targeted at areas where there are systemic issues and market failures that provide the most consumer benefit.