



Name: Institute for Energy Economics and Financial Analysis (IEEFA)

Submission date: 6/06/2025

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?

Introducing domestic gas reservation mechanisms in eastern Australia

While fossil gas is a vital and important input for many industries across Australia, increasingly tight domestic supply conditions and high prices in eastern Australia have contributed to falling gas demand and industrial closures in recent years, directly impacting on investment.

The Australian Competition and Consumer Commission (ACCC)'s gas market reporting has:

- Revealed industry concerns that eastern Australia is facing “the hollowing out of manufacturing capacity in Australia ... as a result of failures in the east coast gas market and the market power of producers.”
- Identified that competition had limited constraints on the pricing behaviour of gas suppliers, in part due to the three Queensland LNG producers and their joint venture partners effectively controlling 90% of eastern Australia's proven and probable (2P) reserves.

• Made several recommendations to improve competition and timeliness of supply. Meanwhile, the Queensland LNG consortiums continue to export more LNG than required to meet their long-term contracts, at the expense of domestic supply. This leads to investment uncertainty for major gas users due to ambiguity about whether there will be sufficient domestic supply, at a reasonable price, to underpin their investments. It is increasingly clear that some form of gas reservation policy will be needed to provide investment certainty for major gas users in eastern Australia, especially in the context of a looming global LNG supply glut. There is a range of approaches that could be used to reserve gas in eastern Australia.

In IEEFA's view, an export tax on discretionary 'spot sales' is likely to be the least

distortionary option. It would still allow LNG exporters to access international markets during very high price events (thereby maintaining gas investment incentives given such events can arise rapidly), while also allowing domestic prices to remain high enough to encourage new gas supply investment.

Planning for a managed phase-down of gas networks

National gas regulations embed the assumption of long-term growth of gas networks. However, the financial case for a residential shift from gas to efficient electric appliances is now compelling. Several state governments are now progressing with policies that would encourage a shift from gas to electricity, and the Australian Energy Market Operator's central scenario expects a fast decline of buildings' gas use. Gas networks and regulators agree that gas distribution assets are likely to become stranded. However, the federal government does not have any plan or target for a residential gas phase-down, or for how to deal with stranded asset risks. In fact, in most states gas connections are still increasing, as is the value of the Regulated Asset Base of gas distribution assets, and the size of asset-stranding risks. It is urgent for the government to provide certainty for investors on where the country is heading in terms of buildings' gas use, and how the phase-down of gas distribution assets will be managed, both from a logistical and financial perspective.

Introducing a net cost-benefit assessment in coal and gas projects approvals

Australia's approval process for coal and gas developments does not appropriately assess the net cost-benefit to Australia's economy of those developments, which presents a high risk for the resilience of Australia's economy. IEEFA's research has shown that there are high economic risks associated with some new coal and gas developments:

- New LNG projects: In the context of an enormous looming global LNG supply glut, new LNG projects could worsen the financial situation of existing LNG projects by further pushing global LNG prices down and worsening oversupply. Existing LNG projects in eastern Australia have had disappointing financial results, and have led to significant economic costs by driving a tripling in domestic gas prices in the eastern states. This has in turn driven significant industrial facility closures and decreases in gas generation. In addition, LNG projects are associated with very large gas use and emissions, which cannot be adequately addressed by carbon capture and storage.
- New coal developments: Australia has already approved more coal mines than are needed to meet projected demand, especially as the government has systematically overestimated metallurgical coal demand forecasts. Global demand for metallurgical coal is expected to fall as low emissions steel production gains pace and Asia's coal power project pipeline is unlikely to sustain seaborne thermal coal markets in the long term. New coal mines come at significant economic costs, including through their very high freshwater use, often competing with other water users in already fully allocated water catchments. They can also impact other economic sectors through their water discharges. Coal mines are highly emissions-intensive, with methane emissions suspected to be grossly underreported, and a lack of visibility on the future emissions intensity of proposed mines. As coal mines expand, their rehabilitation costs and complexities rise – with the potential to cost tax payers hundreds of millions or even billions of dollars to rehabilitate each mine. To date Australia has no examples of the successful rehabilitation of a large, open-cut coal mine.

2. How has your regulatory burden changed over time?

The participant did not respond to this question.

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

Reviewing the economic regulation of electricity distribution networks.

There is evidence suggesting that the economic regulation of Australian electricity distribution networks is not delivering efficient network costs. Historic over-investment has inflated network asset values despite falling utilisation. Supernormal profits across distribution and transmission networks have been measured by IEEFA at \$15 billion (on top of “allowed” profits of \$17.6 billion) over 2014-2023. This is contributing to higher electricity bills for consumers and undermining economic productivity.

With distributed energy resources (DER) increasingly capable of providing network services, current regulation based on monopoly assumptions for electricity networks is outdated. International examples show how reforms like totex regulation, flexibility or network services provision, and moves from technical to negotiated economic regulation processes have the potential to improve efficiency. A first-principles Productivity Commission review of the economic regulation of distribution networks is essential to redesign the regulatory regime for productivity, affordability and the energy transition. The Productivity Commission is well placed to perform this review given its experience and expertise.

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?

Cover sheet: Supporting document #1



6 June 2025

To: Productivity Commission

Re: Creating a more dynamic and resilient economy

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the Productivity Commission's consultation on Creating a more dynamic and resilient economy.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

We would encourage the Productivity Commission to consider the below areas as important focus areas for reform and further work:

- Introducing domestic gas reservation mechanisms in Eastern Australia.
- Planning for a managed phase-down of gas networks.
- Introducing a net cost-benefit assessment in coal and gas projects approvals.
- Reviewing the economic regulation of electricity distribution networks.

Kind regards,

Amandine Denis-Ryan

Josh Runciman



Section 3. Reduce the impact of regulation on business dynamism

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

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While fossil gas is a vital and important input for many industries across Australia, increasingly tight domestic supply conditions and high prices in eastern Australia have contributed to [falling gas demand and industrial closures](#) in recent years, directly impacting on investment.

The Australian Competition and Consumer Commission (ACCC)'s gas market reporting has:

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- Identified that competition had limited [constraints](#) on the pricing behaviour of gas suppliers, in part due to the three Queensland LNG producers and their joint venture partners effectively controlling 90% of eastern Australia's proven and probable (2P) reserves.
- Made several [recommendations](#) to improve competition and timeliness of supply.

Meanwhile, the Queensland LNG consortiums [continue to export more LNG than required to meet their long-term contracts](#), at the expense of domestic supply. This leads to investment uncertainty for major gas users due to ambiguity about whether there will be sufficient domestic supply, at a reasonable price, to underpin their investments.

It is increasingly clear that some form of gas reservation policy will be needed to provide investment certainty for major gas users in eastern Australia, especially in the context of a [looming global LNG supply glut](#). There is a [range of approaches that could be used to reserve gas in eastern Australia](#).

In IEEFA's view, an export tax on discretionary 'spot sales' is likely to be the least distortionary option. It would still allow LNG exporters to access international markets during very high price events (thereby maintaining gas investment incentives given such events can arise rapidly), while also allowing domestic prices to remain high enough to encourage new gas supply investment.

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National gas regulations embed the assumption of long-term growth of gas networks. However, the [financial case for a residential shift from gas to efficient electric appliances is now compelling](#). Several state governments are now progressing with policies that would encourage a shift from gas to electricity, and the [Australian Energy Market Operator's central scenario expects](#) a fast decline of buildings' gas use. Gas networks and regulators agree that [gas distribution assets are likely to become stranded](#).

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- **New LNG projects:** In the context of an [enormous looming global LNG supply glut](#), new LNG projects could worsen the [financial situation of existing LNG projects](#) by further pushing global LNG prices down and worsening oversupply. Existing LNG projects in eastern Australia have had [disappointing financial results](#), and have led to significant economic costs by driving a [tripling in domestic gas prices in the eastern states](#). This has in turn driven significant industrial facility closures and decreases in gas generation. In addition, LNG projects are associated with [very large gas use](#) and emissions, which cannot be adequately addressed by [carbon capture and storage](#).
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As coal mines expand, their rehabilitation costs and complexities rise – with the potential to cost tax payers [hundreds of millions or even billions of dollars](#) to rehabilitate each mine. To date Australia has no examples of the successful rehabilitation of a large, open-cut coal mine.



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

Reviewing the economic regulation of electricity distribution networks.

There is evidence suggesting that the economic regulation of Australian electricity distribution networks is not delivering efficient network costs. Historic over-investment has inflated network asset values despite falling utilisation. Supernormal profits across distribution and transmission networks [have been measured by IEEFA at \\$15 billion](#) (on top of “allowed” profits of \$17.6 billion) over 2014-2023. This is contributing to higher electricity bills for consumers and undermining economic productivity.

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