

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 102-104

Topic: Electricity Prices #2

Written: Received from Committee – 26 October 2012

Senator JOYCE asked:

From the viewpoint of the Productivity Commission regarding electricity prices overall:

102. What would be the 3 or 5 biggest causes or contributors to the increases in our electricity prices over the last one, two and three years?
103. What would be the rank order of these 3 or 5 biggest causes, and what percentage contribution would each have made, approximately? And
104. What should be the primary policy focus to reduce these price pressures?

Answer:

102. The Commission has not comprehensively quantified the source of electricity price increases by year for the last three years. The Commission's draft report only examined network costs for the National Electricity Market (and not Australia as a whole). It does not examine in any detail other important components of electricity bills, such as wholesale energy costs and retail margins. The answer to question 93 indicates the main pressures on network costs.
103. The Commission did not rank the various cost pressures.
104. The Commission made many draft recommendations in relation to network costs for the National Electricity Market intended to reduce electricity cost pressures below the counterfactual. These included:
 - improved demand management through a package of reforms that would reduce investment in networks (and generation) needed to meet demand
 - changes to the National Electricity Rules to increase incentives for cost minimisation and balanced investment
 - greater resourcing of the Australian Energy Regulator to assist it in its decision-making and consultation
 - a greater capacity for consumers to participate in regulatory determinations, including a capacity to reach negotiated settlements with network businesses
 - privatisation of state-owned corporations, or at second best, changes in their governance
 - a new reliability framework based on the customer valuation of reliability
 - a national transmission planner with a capacity to negotiate transmission builds

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- changes to generator access rights to transmission infrastructure to overcome some strategic behaviour by generators that can lead to suboptimal use of interconnectors (the transmission lines linking regions in the national electricity market). Underutilisation of interconnectors often occurs at the times when they would be able to relieve wholesale price pressures
- the increasingly wider use of benchmarking to indicate efficient costs.