

Electricity: Price and reliability

- 5.1 Affordable and reliable energy is crucial for business viability and growth. In particular, the need to address high prices and reliability in the electricity sector has been a focus for the inquiry.
- 5.2 In discussion on the wider energy sector, the *Intergovernmental Review of Business Investment* (the Review) noted that:
- Affordable and reliable energy is crucial for investment decisions by small and large businesses across Australia as energy is a ubiquitous expense for all businesses and households. Resolution of uncertainty around energy policy is critical to build confidence in electricity affordability and reliability. Signals for new long-term generation investments require a nationally agreed and widely supported policy framework.¹
- 5.3 Australia's manufacturing, mining and most other industry sectors rely on affordable and reliable energy. For emerging new technologies, such as electric vehicles and battery storage, the Department of Foreign Affairs and Trade (DFAT) and Australian Trade and Investment Commission (Austrade) noted that 'without appropriate energy policy settings, the emergence of these industries could stall.'²
- 5.4 The Business Council of Australia (BCA) submitted that the combination of rising energy costs and 'supply uncertainty flowing from inconsistent carbon emissions reduction policies are jeopardising existing business operations let alone new investments in Australia.'³

1 Prepared by Heads of Treasuries, *Intergovernmental Review of Business Investment*, September 2017, p. 2.

2 Department of Foreign Affairs and Trade (DFAT) and Australian Trade and Investment Commission (Austrade), *Submission 19*, p. 9.

3 Business Council of Australia (BCA), *Submission 29*, p. 6.

- 5.5 The Department of Industry, Innovation and Science acknowledged that energy prices are negatively impacting on the viability and competitiveness of industries, and on attracting new investment.⁴

Electricity affordability and reliability

- 5.6 The Australian Competition and Consumer Commission (ACCC) report *Restoring electricity affordability and Australia's competitive advantage* was released in July 2018. It found that the National Energy Market (NEM) was not operating in the best interests of consumers, and concluded that, in particular, reform was needed around competition and affordability.
- 5.7 In its report the ACCC noted that Australian electricity prices, gross margins and net margins are among the highest in the world.
- 5.8 The Institute of Public Affairs submitted that low cost and reliable energy was previously one of Australia's great competitive advantages. It attributed much of the escalation of electricity prices to public policy favouring renewable energy over coal.⁵
- 5.9 KPMG noted that part of the reason that countries like Canada are paying less for electricity is due to affordable energy, and they are making a transmission to a greater level of renewables. However, it emphasised that the core point is that Australia needs an orderly transition.⁶

Impact on businesses

- 5.10 The committee heard that high energy costs are negatively affecting businesses, putting a strain on profit margins and impeding their capacity for investment and growth, and in more extreme cases, threatening the viability of some businesses.
- 5.11 The Australian Chamber of Commerce and Industry (ACCI) identified increasing electricity costs as the number one issue for its members. It told the committee that:

There's white-hot rage in our membership in the business community that we've got some of the most expensive electricity

4 Department of Industry, Innovation and Science, *Submission 24*, p. 7.

5 Institute of Public Affairs, *Submission 34*, p. 15.

6 Mr Adam Carr, Director, Economics and Industry Policy, Australian Chamber of Commerce and Industry (ACCI), *Committee Hansard*, 31 July 2018, p. 10.

prices in the world. Why? I was really fascinated to hear from KPMG again that in Canada the cost is one-third of what it is here. That's terrible. Why are we doing that to ourselves?⁷

5.12 A number of examples of businesses being negatively affected by high electricity prices are provided in the ACCC's report for its retail electricity pricing inquiry. The committee has also received evidence of businesses negatively impacted by high electricity costs.

5.13 The Australian Dental Industry Association expressed similar concerns about high electricity prices, and provided the following feedback received from a dental supplies business:

I would say the unreliability and increasing price of electricity are among the largest barriers to investing in our business. I've seen our energy overheads increase by 25% over the past 12 months. Worse still, last summer we experienced blackouts once or twice a month. On one occasion we lost power for three-quarters of a day which cost our business \$20,000. This essentially wiped out the net benefit of the Government's \$20,000 instant asset tax write-off which was supposed to help us invest and grow.⁸

5.14 In more extreme cases, the committee heard that some businesses have been forced to close. The Institute of Public Affairs stated that:

...in June last year a family-run recycling business in Kilburn in Adelaide's inner north announced it was closing its business after 38 years of operation and putting 35 people out of work. The trigger was a spike in its monthly electricity bill from \$80,000 to \$180,000.⁹

5.15 Not only are energy prices acting as a disincentive for foreign investment, they could also be driving some Australian businesses to move their operations overseas.

5.16 The ACCCI commented that it has reached the point that a number of businesses are 'crunching the numbers as to whether they stay domestic or move abroad.'¹⁰ It stated that:

7 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 10.

8 Australian Dental Industry Association, *Submission 25*, p. 11.

9 Mr Daniel Wild, Research Fellow, Institute of Public Affairs, *Committee Hansard*, 1 August 2018, p. 43.

10 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

...it's much easier for companies these days to relocate elsewhere. The costs of doing so aren't as marked now, so it is something we need to take seriously when a business says: 'Look, we're paying the highest electricity prices in the world. We can save X per cent if we go to Singapore or what have you and just export to Australia.'¹¹

- 5.17 The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) noted the case of an Australian plastics manufacturing company in Melbourne that found that due to high electricity costs it was no longer competitive with imports.
- 5.18 The ASBFEO noted that the company had been in Australia for 50 years and was keen to continue manufacturing domestically, but is now having to look at importing from China. It stated:
- Their comment to us is that they've got two choices: one is to close the doors – they had 35 employees – or, alternatively, they import. So they move their manufacturing operations to China and they become an importer. Those were the two options that they saw.¹²
- 5.19 The ACCI noted that network costs have been a significant component of high electricity prices. To address this, it proposed looking at the issue of competition in the electricity space. The ACCI endorsed the ACCC's recommendation in relation to price transparency and asked that all parliamentarians 'endorse the idea of price transparency – being able to look at a discount offer and be sure that it is a genuine discount.'¹³
- 5.20 The committee noted that over the course of 2018, wholesale gas prices have been coming down – due predominantly to government action around gas supply in the eastern and southern states – and that has significantly influenced electricity prices coming down.
- 5.21 In its retail electricity pricing inquiry report, the ACCC found that 'wholesale spot and futures prices are around 30 per cent lower than their 2017 peak'.¹⁴

11 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

12 Ms Kate Carnell, Ombudsman, Australian Small Business and Family Enterprise Ombudsman (ASBFEO), *Committee Hansard*, 7 August 2018, p. 7.

13 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

14 ACCC, *Retail Electricity Pricing Inquiry – Final Report*, June 2018, p. xiv.

- 5.22 However, the ACCI commented that while it welcomed the reduction in wholesale electricity prices, it is 'nowhere near what we need to see to calm the concerns of business.'¹⁵

Regional challenges

- 5.23 While wholesale electricity prices have increased significantly across the NEM since 2012, Queensland and South Australia in particular have experienced rapid price increases, with 168 per cent in Queensland in 2017 and 178 per cent in South Australia. Townsville Enterprise Limited noted Queensland Productivity Commission findings that:

In terms of competitive position, North Queensland has moved over the past five years from among the most cost effective electricity producers to among the most expensive. This has occurred in an environment where the Queensland market is oversupplied with generation capacity by around 30%.¹⁶

- 5.24 The rising electricity cost in Queensland in recent decades has been largely attributed to the state's network and distribution costs. The Queensland Government owns two-thirds of the state's generation capacity.
- 5.25 Townsville Enterprise Limited noted that North Queensland has a strong manufacturing and resource base, which has been highly dependent on energy. It submitted that electricity prices are having a crippling affect upon industry and the local economy in North Queensland.
- 5.26 Townsville Enterprise Limited commented that the region's location exacerbates access challenges, and described North Queensland as 'at the end of one of the world's longest extension cords in that we are not close to power generation.'¹⁷
- 5.27 In commenting on the ACCC's findings on retail electricity pricing, the Townsville Enterprise Limited stated that 'the region as a whole is very supportive of some of the recommendations that were defined in that

15 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 14.

16 Townsville Enterprise Limited, *Submission 27*, p. 3.

17 Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Limited, *Committee Hansard*, 22 August 2018, p. 7.

report.¹⁸ It also suggested that allowing Northern Queensland to generate more energy will help address energy concerns in the region.

- 5.28 An example from regional Victoria in the red meat production sector is of a lamb and mutton producer. Its electricity and gas costs rose 70 per cent in the first half of 2017, amounting to \$1.1 million of additional costs over the course of the year. The Red Meat Advisory Council (RMAC) cautioned that if essential input costs like energy continue to grow, there is real danger of losing SME meat processors like this business, which would have a detrimental effect on regional economies.¹⁹
- 5.29 The Minerals Council of Australia (MCA) noted that some farming and mining operations, fishing and tourism operators did not even have access to on-grid electricity, with many remote communities and businesses using diesel as their only option for reliable power generation.²⁰

Government policy

- 5.30 The Public Interest Advocacy Centre (PIAC) submitted that rather than perceiving regulation narrowly as simply a burden on business, it commented that regulation can play an important role in providing a framework of stability and certainty for business and consumers.
- 5.31 In particular, PIAC provided the energy market as an example of where efficient regulation is needed. It noted that the ACCC's report on the energy market concluded that 'ineffective regulation of monopoly and oligopoly businesses in the network and retail space has resulted in an increasingly dysfunctional status quo.'²¹

Energy generation

- 5.32 KPMG submitted that a well-designed National Energy Market (NEM) can help reduce barriers to business investment, among electricity generators, suppliers and clients. It noted that the emergence of new technology makes national cohesion in the market even more important.²²

18 Mr Michael McMillan, Director, Policy and Investment, Townsville Enterprise Limited, *Committee Hansard*, 22 August 2018, p. 7.

19 Red Meat Advisory Council (RMAC), *Submission 20*, p. 12.

20 Minerals Council of Australia (MCA), *Submission 17*, p. 15.

21 Mr Miyuru Ediriweera, Senior Policy Officer, Public Interest Advocacy Centre, *Committee Hansard*, 31 July 2018, p. 50.

22 KPMG, *Submission 21*, p. 22.

- 5.33 The MCA attributed the serious challenges in the NEM to removing dispatchable power – electricity which is available to a power grid system to service the needs of the market. This is usually supplied from generators which can be switched on or off as demand varies. It stated:
- Any policy approach should aim to reduce energy costs in Australia and retain a focus on securing a reliable, lowest-cost dispatchable energy supply that is available 24/7, while meeting emissions reduction targets. The MCA believes a technology neutral approach should be adopted for all low emissions energy sources where no one technology is favoured to the exclusion of others. High Efficiency, Low Emissions (HELE) coal technologies and nuclear energy should both be options for supplying electricity under Australia's future energy policies.²³
- 5.34 In relation to the renewable energy sector, the Clean Energy Council submitted that since 2017 roughly \$12 billion of renewable energy projects had reached financial close in Australia. It noted that their projects had created more than 6,500 jobs and reinvigorated regional communities across Australia. It also stated that the 'new energy supply from those projects is expected to reduce the average power bill by hundreds of dollars a year during the next decade.'²⁴
- 5.35 The ACCI noted that its members agreed that Australia needs to meet the Paris targets, but indicated that they were neutral on how this could be achieved 'without crunching businesses and elevating electricity costs'. It commented that with expert guidance it is achievable; it is just the political will that is needed.²⁵

Electricity price safety net and rule changes

- 5.36 Currently, small businesses could be paying up to \$3,457 per year more than the cheapest market offer in some regions.
- 5.37 In October 2018, the Australian Government announced that the Australian Energy Regulator (AER) was starting work on a 'price safety net'. The Australian Government has tasked the AER with introducing default electricity prices by 2019, with savings to be passed through to families and small businesses by 1 July 2019. The AER will develop:

23 MCA, *Submission 17*, p. 28.

24 Clean Energy Council, *Submission 5*, p. 1.

25 Mr Adam Carr, Director, Economics and Industry Policy, ACCI, *Committee Hansard*, 31 July 2018, p. 12.

- A maximum price for the default market offer to apply from 1 July 2019 for customers not subject to state-based price regulation.
- A mechanism for determining a reference bill amount for each network distribution region, from which headline discounts can be calculated.

5.38 In its media release, the Australian Government noted that the price safety net is consistent with ACCC's recommendations in the retail electricity pricing inquiry.²⁶ The Australian Government will also make changes to:

- require energy retailers to notify their customers when their discounts are about to finish or change
- allow customers to stop energy discounting practices that can leave customers worse off, and
- require gas and electricity retailers to notify customers of price changes at least five days before they take effect.

5.39 Complementing these changes is the Australian Energy Market Commission (AEMC) determination to address customer concerns about inaccurate estimated meter readings and bills. From 1 February 2019, retailers will be required to advise customers that they can provide their own meter reading instead of accepting a retailer's estimate.

5.40 The AEMC has recommended introducing civil penalty provisions if retailers do not comply with the new obligations.

Other energy reforms

5.41 The Australian Government has also announced the following additional measures aimed at bringing energy prices down and increasing reliability:

- Stopping price gouging by the big energy companies. This includes banning sneaky late payment penalties and making energy retailers pass on savings in wholesale prices to customers. It will increase regulator's power to crack down on dodgy, anti-competitive practices – through fines, penalties, enforceable undertakings, structural separation and divestiture. We have already seen prices come down in Queensland, South Australia and New South Wales on 1 July 2018, and we have directed the Australian Competition and Consumer Commission (ACCC) to monitor electricity prices until 2025 to ensure prices are fairer for consumers.

26 The Australian Government indicated it will adopt ACCC recommendations 30, 32, 49 and 50.

- Backing investment in new power generators to improve competition. Underwriting new electricity generation will attract investment in the electricity market, increasing supply and reducing wholesale electricity prices. The Government will consult on the Underwriting New Generation Investments program, with submissions open until 9 November 2018. Based on feedback from the consultation, the Government will release initial program guidelines and invite proponents to nominate projects through an expression of interest process open from December 2018 to January 2019.
 - Supporting reliable power by requiring energy companies to sign contracts guaranteeing enough energy to meet demand. We will work with state and territory governments through the COAG [Council of Australian Governments] Energy Council to ensure these contracts are signed.²⁷
- 5.42 The Australian Government's Underwriting New Generation Investments program is focused on attracting new investment in firm or firmed generation capacity. The aim is to increase competition and reduce electricity prices, and to improve reliability and security by increasing the level of firm capacity in the system. In the consultation paper on the program, the Australian Government indicated that its intention is 'to target projects that would have occurred in the absence of the market failure identified by the ACCC and that could maximise impact on competition and price.'²⁸
- 5.43 It is anticipated that following consultation, the Australian Government will release initial guidelines for the Underwriting New Generation Investments program and invite project nominations during an expression of interest period from December 2018 and January 2019.
- 5.44 The Australian Government is also developing legislation to implement a strong regime for monitoring electricity prices. The regime will include:
- empowering the ACCC to recommend a range of enforcement remedies
 - empowering the Treasurer to order the divestiture of assets on advice from the ACCC

27 The Hon Scott Morrison MP, Prime Minister, the Hon Josh Frydenberg MP, Treasurer, and the Hon Angus Taylor MP, Minister for Energy, 'A Fair Deal on Energy', *Media Release*, 23 October 2018, <<https://www.pm.gov.au/media/fair-deal-energy>>, accessed 24 October 2018.

28 Department of the Energy and Environment, *Underwriting New Generation Investments: Public Consultation Paper*, October 2018, p. 5.

- supporting the COAG Energy Council agenda through Commonwealth legislation if required.²⁹
- 5.45 The Australian Government has also indicated that it will progress measures through the COAG Energy Council to:
- introduce a market cap on generation ownership to prevent further concentration in the market and increase competition
 - increase transparency in the wholesale contract market to make it easier for new entrants and smaller retailers to compete effectively in the retail market
 - introduce higher penalties for breaches of the National Electricity Law and related laws, of up to \$10 million
 - increase the AER's powers to investigate market manipulation and impose appropriate remedies.³⁰
- 5.46 On 5 December 2018, the Australian Government introduced the Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018. It proposes to amend the *Competition and Consumer Act 2010* to define energy market misconduct and provide a series of penalties and remedies for companies engaging in prohibited conduct.
- 5.47 On 17 December 2018, the Minister for Energy, the Hon Angus Taylor MP, announced the Business Energy Advice Program to assist small businesses save on energy costs. The \$11.6 million program will 'deliver tailored advice help small businesses find the best energy deal and identify opportunities for them to use energy more efficiently.'³¹ It opens for tender in the first quarter of 2019.

29 The Hon Scott Morrison MP, Prime Minister, the Hon Josh Frydenberg MP, Treasurer, and the Hon Angus Taylor MP, Minister for Energy, 'A Fair Deal on Energy', *Media Release*, 23 October 2018, <<https://www.pm.gov.au/media/fair-deal-energy>>, accessed 24 October 2018.

30 Department of the Environment and Energy, *Stopping the price gouging*, Fact Sheet, October 2018, p. 1, <<https://www.energy.gov.au/publications/stopping-price-gouging>>, accessed 26 October 2018.

31 Department of the Environment and Energy, 'Help on the way for small businesses to save on energy', *Media release*, 17 December 2018, <<http://www.environment.gov.au/minister/taylor/media-releases/mr20181217.html>>, accessed 18 December 2018.

Conclusions and recommendation

- 5.48 The committee heard that high energy costs are negatively affecting businesses; putting a strain on profit margins and impeding their capacity for investment and growth. Some businesses are even considering moving their operations overseas as a more cost effective option, or in extreme cases, it has contributed to some businesses closing.
- 5.49 It appears that high electricity costs are having a disproportionate impact on small and medium enterprises and businesses in regional and remote areas.
- 5.50 While electricity is a component of wider energy supply challenges, and is only one of a number of factors influencing business investment in Australia, it is important to address the issue of electricity affordability and reliability to better support Australian businesses.
- 5.51 The committee notes that the Australian Government has taken a targeted approach to reducing high electricity prices and improving reliability. It has adopted a number of initiatives consistent with the ACCC's recommendations in the report on retail electricity pricing, which are aimed at bringing down prices and restoring consumer confidence and Australia's competitive advantage.
- 5.52 The initiatives will include: introducing a price safety net (default electricity prices); increased monitoring of electricity prices and cracking down on prices gouging by energy companies; underwriting new electricity generation to attract investment in the electricity market; and introducing retailer reliability obligations.
- 5.53 The committee also notes the measures the Australian Government has flagged to progress through the COAG Energy Council. This is a significant opportunity for the Commonwealth and state and territory governments to cooperate on this issue and deliver outcomes to enhance affordability and reliability, in the best interests of electricity consumers across Australia.

Recommendation 10

- 5.54 **The committee recommends that the Australian Government continues its focus on improving reliability and price in electricity.**