

25 January 2019

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Dear Committee,

Thank you for the opportunity to comment on the Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018 and proposed amendments.

*The Bill*

We would like to bring to your attention the Australia Institute's recent paper [\*The Costs of Market Experiments: Electricity Consumers Pay the Price for Competition, Privatisation, Corporatisation and Marketization\*](#)<sup>1</sup>, which is relevant to the Committee's terms of reference. It shows the problem in electricity pricing is structural and suggests the approach proposed in the bill to break up electricity companies will likely exacerbate the problem rather than fix it.

The electricity industry has been subject to inappropriate policies over the last two decades or so. The fragmentation of the industry and the creation of artificial competition has been associated with a reduction in real output per employee of 37% between 2000 and 2018, due to the excessive allocation of ultimately unproductive labour to advertising, sales, contract administration, playing the National Energy Market and other activities associated with privatisation.

The number of sales staff employed by electricity companies has grown almost 400% since the industry began to be privatised in the mid-1990s and the number of managers has grown over 200%. As a result productivity growth has been worse than for any other industry in Australia, completely contrary to the assumption that privatisation enhances efficiency. Electricity sector now spends more on finance and banking costs than the actual fuels that power electricity generation.

Further fragmentation of the electricity sector will see these costs increase; horizontal fragmentation would see more players set up with their own advertising departments, duplicate management structures and so on. Vertical fragmentation means in-house informal arrangements are replaced by contract negotiations, legal resources in introducing and monitoring contracts, attempts to avoid obligations and so on. Generally this is a natural monopoly industry characterised by

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<sup>1</sup> <http://www.tai.org.au/content/electricity-prices-consumers-get-short-end-big-stick>

- economies of scale which imply efficiencies resulting from the larger size of operations, and
- economies of scope due to efficiencies resulting from having related operations under a single management.

Policy in relation to the industry has to go with these strong forces rather than try to resist them as was the case with policies that fragmented the industry. There is a legitimate concern in the community regarding profit gouging in the electricity industry. However, excessive profit in monopolies, duopolies and oligopolies are better addressed through mechanisms such as the price caps applied to Telstra (which is discussed in the Australia Institutes submission to the ACCC regarding Telstra's price control arrangements<sup>2</sup>). A similar mechanism would be the 'default offer' price set by the Australian Energy Regulator as recommended by the ACCC in their Retail Electricity Pricing Inquiry Report.

#### *Proposed Amendment*

The Australia Institute would like to highlight and support the amendment proposed by Adam Bandt MP prohibiting receipt of support for coal-fired power.

Former Minister for the Environment Greg Hunt signed the Paris Agreement in April 2016. This expresses Australia's intent to be bound by the terms of the Agreement. In Australia, the Paris Agreement was tabled in Federal Parliament on 31 August 2016, along with a National Interest Analysis. Following consideration by the Parliamentary Joint Standing Committee on Treaties, which recommended that Australia ratify the Agreement, Australia announced its ratification of the Paris Agreement on 10 November 2016.

Australia's National Determined Contribution (NDC) under the Paris Agreement is to 'implement an economy-wide target to reduce greenhouse gas emissions by 26 to 28 per cent below 2005 levels by 2030'. The Department of Environment and Energy released Australia's latest emissions projections on 21 December 2018.<sup>3</sup> The projections provide an assessment of how Australia is tracking against these emissions reduction targets and shows that we are not currently on track to meet our 2030 target.

The gap between our 2030 target and our current trajectory could be ameliorated through the use of credits accrued under a previous climate agreement to reduce emissions, the Kyoto Protocol. However, other OECD members including the UK, Germany, Netherlands, Denmark, Sweden and New Zealand have ruled out such an approach, maintaining it is not in the spirit of the Paris Agreement.<sup>4</sup> It is therefore important that Australia look to meet its NDC through reducing emissions going forward.

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<sup>2</sup>[http://www.tai.org.au/sites/default/files/Submission%20to%20ACCC%20on%20Telstra\\_7.pdf](http://www.tai.org.au/sites/default/files/Submission%20to%20ACCC%20on%20Telstra_7.pdf)

<sup>3</sup><http://www.environment.gov.au/system/files/resources/128ae060-ac07-4874-857e-dced2ca22347/files/australias-emissions-projections-2018.pdf>

<sup>4</sup><http://www.tai.org.au/content/government-way-mark-paris-target-new-analysis>

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Electricity is the largest polluting sector in the economy and will remain so for some time into the future. The federal government has few programs and policy levers to reduce electricity emissions. The large scale renewable energy target will conclude in 2020 and the national energy productivity plan is not on track. The Direct Action Safeguards Mechanism will do nothing to reduce electricity emissions. Far more is required.

The Government should be looking to retire existing coal power stations and under no circumstances supporting new ones.

Even the most advanced 'ultra-supercritical' coal fired power plants are still emissions intensive. They are far closer in greenhouse gas emissions to other coal plants than they are to natural gas, which is itself a polluting fossil fuel. If Australia is serious about meeting its commitment in the Paris Agreement, it cannot afford to build new or refurbish existing coal power plants.

Local supercritical coal fired power stations, (there are currently four in Australia), are also less reliable than older subcritical models according to the latest Australia Institute research.<sup>5</sup> New coal fired power stations are more expensive than alternative sources of electricity generation according to a recent joint study by CSIRO and the Australian Energy Market Operator.<sup>6</sup> Finally, the majority of Australians do not want more coal power stations. The Australia Institute's Climate of the Nation 2018 Report found 70% of respondents (from a sample of 1,756 Australians) firmly agreed the Government needs to implement a plan to ensure the orderly closure of old coal plants and their replacement with clean energy.<sup>7</sup>

Sincerely

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The **Australia  
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Research that matters.  
> **Climate & Energy.**

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<sup>5</sup> <http://www.tai.org.au/content/suboptimal-supercritical>

<sup>6</sup> <https://www.csiro.au/en/News/News-releases/2018/Annual-update-finds-renewables-are-cheapest-new-build-power>

<sup>7</sup> <http://www.tai.org.au/sites/default/files/180911%20-%20Climate%20of%20the%20Nation%202018%20%5BPRINT%5D.pdf>