

Submission to the Senate Select Committee on Electricity Prices

September 2012

The Business Council of Australia (BCA) welcomes the opportunity to provide input to the Senate Select Committee on Electricity Prices. Electricity represents a fundamental input to both industry and households. Ensuring that the appropriate frameworks and incentives are in place so that Australia has competitive electricity markets is a critical element underpinning Australia's future prosperity.

The BCA brings together the chief executives of 100 of Australia's leading companies. For almost 30 years, the BCA has provided a unique forum for some of Australia's most experienced corporate leaders to contribute to public policy reform that affects business and the community as a whole. Our vision is for Australia to be the best place in the world in which to live, learn, work and do business.

Electricity prices

That Australia's electricity prices have increased rapidly in recent years is readily apparent. The causes of these price increases are also well documented and have been, and continue to be, the subject of a number of different pieces of research. We therefore do not intend to re-prosecute these explanations in much detail.

Increases in network prices have been a significant driver of recent electricity price increases. These increases, which were already apparent prior to the implementation of the carbon price, have been driven by the need to meet increasing reliability standards, to make up for historical underinvestment and to invest in new infrastructure necessary to meet increased demand, and in particular increased peak demand. The increasing shift towards renewable energy sources has also necessitated extensions and upgrades to the network.

Most households now own one or more large screen televisions, and have an air-conditioner installed. These two factors in particular have greatly contributed to increased peak demand.

However, the flat rate paid for electricity by most end users means that they are largely unaware of the relationship between their demand and the cost of supplying it, in particular during peak periods.

BCA principles

Productivity is fundamentally determined by the decisions and investments made by firms. Reforms that shift the electricity market further towards a competitive, privatised and deregulated market are the best means of government providing firms with an incentive to innovate and be more productive.

Electricity prices should reflect the efficient costs of providing electricity to end users. Prices should not be artificially held below efficient costs as this can result in under-investment which can exacerbate price outcomes in the longer term. In particular, retail price regulation and/or government intervention should not be utilised to artificially hold electricity prices below their efficient levels.

Over time the best way to ensure that prices remain as low as possible is to ensure that we have an open and competitive electricity market. While some elements of our electricity networks are natural monopolies and are not subject to competition they should still be provided with a set of incentives that push them to operate efficiently. These incentives can be provided through an appropriate and effective regulatory framework and through the use of best practice benchmarking.

The BCA has previously outlined a number of principles that underpin markets providing effective outcomes. They are that:

- assets are primarily privately owned and on a level playing field
- price regulation is removed to ensure that prices are reflective of costs – this assists in ensuring that efficient investment is undertaken
- there is supply and demand-side participation to ensure that consumers are engaged and involved in markets
- government policy is technology neutral to ensure that technologies compete on a level playing field that allows for solutions to be arrived at in a least-cost manner; and
- regulatory burden is minimised.

While some progress has been made against these broad principles in relation to Australia's electricity markets, further reforms are necessary.

In addition to these broad principles, we have also specifically advocated for:

- the rollout of smart meters subject to an appropriate cost-benefit analysis; and
- the implementation of time of use pricing for end users so that prices accurately reflect the cost of supply to end users

It must also be recognised that as these reforms are progressed a set of appropriate consumer protection measures should be simultaneously implemented. The National Energy Customer Framework can play an important role in this regard, but must be continuously monitored to ensure that it remains relevant given the rapid pace of change in the electricity market.

Individually, and collectively, these principles and reforms are designed to improve the overall efficiency and effectiveness of the operation of Australia's electricity markets.

The BCA notes that there are already a large number of processes and reviews underway that directly, or indirectly, influence our electricity markets and subsequently future electricity price outcomes. While these are a positive first step, there is a need to convert the outcomes of these processes and reviews into concrete reforms and actual outcomes.

The Government's Energy White Paper, due for release later this year, should clearly articulate the process and timelines by which it intends to respond to these reviews and progress the issues that have been identified.

The renewed interest in reforms to improve the operation of our electricity markets is a welcome development. However, there is a need for renewed, and more regular, engagement on energy issues and their relationship to the strength of the Australian economy. The BCA therefore strongly supports the commitment in the Draft Energy White Paper to institutionalise a regular four-yearly review of national energy policy strategy beginning in 2016.

Climate change policies

The outcomes in Australia's electricity markets also in part reflect the suite of government policies in relation to climate change mitigation.

IPART estimate that from 1 July 2012, the cost of complying with all green schemes will contribute around \$316 on average to an indicative regulated electricity customer's bill in NSW.

Despite the recent implementation of a price on carbon, there remain a large number of government policies that also have reducing greenhouse gas emissions as their primary objective. Many of these policies, including the Renewable Energy Target, have a flow on impact on electricity prices.

These policies should be assessed against the complementarity principles agreed by COAG.

This means that any policies and measures retained, and any new policies introduced, that relate to climate change must clearly and demonstrably address a separate market failure. Such

measures should also assist in reducing emissions at least cost. Furthermore, these measures should be part of a national response and implemented in a nationally consistent manner.

Examples of the types of programs that are complementary to a national carbon price could include investment in the research and development of low emission technologies and adaptation to climate change.

Where policies are not complementary to a carbon price, they should be wound up as quickly as possible.

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