Additional comments from Senator Nick Xenophon

Public outrage about the massive 40 per cent increase in electricity prices since 2008 cannot be denied, and is indeed justified. As acknowledged by the committee in the majority report, it is concerning to see that disagreement exists within the industry as to the reasons behind the price increases.

Appropriate data regarding the drivers of increased electricity costs needs to be recorded and made publicly available to improve industry accountability and transparency. To that extent I welcome the important work that has been done by the Australian Energy and Market Commission (AEMC) to predict the contributions of a number of factors to future price increases. However it would have been immensely beneficial to this inquiry if comprehensive data had been made available to explain the huge price increases of the past five years. Such data should be made available publicly, and if the industry refuses, it should be mandated in legislation.

Key causes of electricity price increases

The majority report addressed the main causes of electricity price increases, however I believe two factors deserve further attention: cost forecasting and the impact of complying with climate change policies, including the Renewable Energy Target (RET) and its current structure. I emphasise that the target itself should not be changed; rather, incentives need to be given within the RET for baseload renewables such as geothermal.

Cost forecasting

On 2 October 2012 the Essential Services Commission of South Australia (ESCOSA) released a draft determination on wholesale electricity costs and the standing contract price. In South Australia, ESCOSA regulates retail electricity prices for small consumers who are on the standing contract offered by AGL Pty Ltd. ESCOCA's draft determination announced a reduction of 8.1 per cent of the standing contract price. The reason for the reduction was inaccurate forecasting of the wholesale price of electricity. This example demonstrates how convoluted predicting prices can be, based on rules skewed against consumers, and how important it is for regulators to have review mechanisms in place to ensure that price predictions align with actual prices.

Climate and renewable energy policies

At the outset I wish to make it clear that Australia must take steps to protect our environment and economy from the impacts of climate change. That said, I have concerns climate and renewable energy policies are inefficient and may place an undue financial burden on households and businesses, while not achieving an optimal environmental outcome.

The Large-Scale Renewable Energy Target (LRET) imposes a legislated target of 41,000GWh of electricity be produced by renewable sources in the period 2020 to 2030. My issue is not with that target, but the way the target is achieved through an over-reliance on one form of technology. It favours a form of technology (wind power, for example) that does not provide reliable baseload power, and fails to give sufficient support to emerging technologies such as geothermal and solar thermal, which have the potential to provide baseload power.

In their submission Major Energy Users Inc expressed concerns about the impact of state renewable energy incentive schemes:

> The cost of these state schemes cannot be under-rated. For example, the cost of the feed-in tariff scheme used in SA has resulted in network prices increasing by over 20% in 2012/2013 just to recover the PV rebate payable.[1]

The REC Agents Association put forward a set of different figures to describe the impact of renewable energy schemes:

> While it is clear that the renewable scheme has contributed to rising power prices, it is currently less than 1c per kilowatt hour, which is roughly equivalent to 3.4 percent of retail prices, and a similar amount is due to state based schemes.[2]

However the Independent Pricing and Regulatory Tribunal (IPART) states:

> In 2011-2012 the cost of complying with the RET adds around $102 (or around 5%) on average to an indicative regulated electricity consumer's bill in NSW. This is significantly higher than was forecast when the RET scheme was amended in 2009 and 2010 and higher than the estimates referred to in the Climate Change Authority's recent issues paper for the RET review.[3]

IPART continues:

> Together, the RET and the carbon price add around $270 to a typical residential consumer's bill in NSW in 2012/13. As the target increases each year until 2020, the costs of meeting the LRET are likely to increase (depending on the price of the certificates). It is possible that by 2020 the LRET will add more to electricity bills than the carbon price.[4]

However the committee heard the LRET may actually reduce wholesale electricity prices:

1 Major Energy Users, *Submission 30*, p. 5.

2 Mr Riccoardo Brazzale, President, REC Agents Association, *Proof Committee Hansard*, 9 October 2012, p. 9.

3 IPART, *Submission 35*, pp 9–10.

4 IPART, *Submission 35*, p. 10.

> …the extra generation that the LRET brings on has to some extent – and there is some controversy over the size – a depressing effect on wholesale electricity prices.[5]

Professor Garnaut also commented:

> The steady expansion of renewable energy supplies under the RET is forcing down wholesale prices, and it is possible, although no certain, that in the middle of 2015 with the linkage to the European market we would have a lower carbon price than we do today.[6]

With such disagreement as to the impact of renewable energy schemes on electricity prices it is unsurprising confusion exists as to the true cost of these schemes to consumers. Therefore I welcome recommendation 1 of the committee which calls for regular ongoing quantitative monitoring of contributors to electricity prices, however I believe detailed analysis of past contributors should also be conducted.

Recommendation: the AEMC conduct a thorough investigation into the impact renewable energy schemes, both federal and state-based, have had on electricity prices since 2008, with a view to maximising the environmental benefits at the lowest cost to consumers. Further, such a review should investigate the long-term benefits of encouraging investment in baseload renewables.

Demand management

The committee has engaged in a comprehensive discussion about how to manage overall demand, and in particular peak demand, in order to reduce electricity prices. What is apparent in today's electricity market is the information vacuum that seems to exist in terms of consumer knowledge of the industry. Therefore proposals such as mandatory installation of smart meters must be met with significant efforts by industry and government to educate the public about demand management initiatives and how they can be used to reduce power bills.

The fallout from lack of education was expressed clearly by the Energy Retailers Association of Australia in their discussion about smart meters in Victoria:

> it was done without much consumer involvement, information or consultation,…(because consumers) got the cost of the meter upfront without getting any of the befits, (this) has poisoned the environment around (smart meters).[7]

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5 Mr Tennant Reed, Principal National Adviser, Public Policy, *Proof Committee Hansard*, 25 September 2012, p. 43.

6 Professor Ross Garnaut, *Proof Committee Hansard*, 9 October 2012, p. 2.

7 Mr Cameron O'Reilly, Chief Executive Officer, Energy Retailers Association of Australia (ERAA), *Proof Committee Hansard*, 25 September 2012, pp 21–22.

This example clearly demonstrates that potentially cost saving technology can be mistrusted or ignored by households due to lack of consumer education and involvement in the technology's rollout. Without appropriate consumer engagement and rigorous legislative safeguards, price savings may not be achieved.

The committee has recommended the SCER agree to introduce cost reflective pricing for electricity in conjunction with smart meters in all jurisdictions in the NEM based on the three tier consumer size model proposed by the Power of Choice draft report. Should the SCER agree to implement this model I strongly encourage it to heed the committee's recommendation that the rollout be accompanied by a comprehensive consumer information and education campaign during both the planning and implementation phases.

Consumer protection

The role of the National Energy Consumer Framework and advocacy groups

The severe impact rising electricity prices has had on households in undeniable. The committee received evidence from a variety of sources attesting to the increase in requests for assistance from consumer advocacy groups, complaints to energy industry ombudsmen and, sadly, utility disconnections.

Encouraging limited use of electricity can only go so far to keeping electricity bills low. One submitter described how he was able to keep his quarterly power bills to $150:

> Few Australians would tolerate the self imposed discipline whereby I achieve that figure: no freezer, no TV, no computer, no washing machine, no lights, no stove/oven and no hot showers.[8]

In a developed nation such as Australia we should not expect the financially vulnerable to take such drastic measures in order to pay the bills. In response to this issue the committee has made two important recommendations, both of which I fully support.

Recommendation 13 encourages all states and territories to adopt the National Energy Consumer Framework (NECF), a national regime for the sale and supply of electricity and gas that contains a number of consumer protections.

One such protection is for energy contracts to be explained in terms consumers understand before signing. Recently I was made aware of a number of people in South Australia who had negotiated a discount on their electricity rate with their retailer in exchange for signing up to a contract for a minimum of two to three years. However shortly after they signed the contract the residents received a letter from their retailer informing them rates had increased. Unless the resident was willing and able to pay a

8 Mr Mark Hattersley, *Submission 54*, pp34.

$75 early exit fee they were locked into paying higher power prices for the next few years when they thought they had negotiated a discount.

The NECF should require retailers fully disclose potential future price increases when asking customers to sign up to minimum term contracts. Similarly each State should follow New South Wales' lead and take steps to ban early exit fees for utility contracts.

The second recommendation by the committee regarding consumer protection is for the Standing Council on Energy and Resources (SCER) to consider establishing a national consumer advocacy body to represent and support consumers in the National Electricity Market (NEM). This body would restore the focus on the long term interests on consumers in electricity policy (as per the National Electricity Objective) by representing consumer views to policy makers as well as provide advocacy and support for consumers.

Financial assistance for meeting rising electricity prices

Concerns have been raised previously that Federal Government handouts to low-income earners to compensate for the introduction of the price on carbon were spent on poker machines. In July this year the Australian Financial Review reported:

> Poker machine revenue in Queensland jumped more than 7 percent in May – when the first Clean Energy payments went out – and rose almost 12 percent in June year on year.[9]

It is important low income earners receive assistance with meeting the higher electricity bills, however there must be appropriate safeguards in place to ensure the money is being spent where it is intended. State and Federal Governments should give consideration to providing assistance by way of vouchers payable to utility companies rather than direct cash payments.

Industry claiming to be victims

The following interchange with the Chief Executive Officer of the Energy Retailers Association of Australia sets out a position energy retailers have put to the public that many would consider to lack credibility.

> Senator XENOPHON: Further to Senator McEwen's line of questioning, could you take on notice and provide us details of the form of self-regulation practices that you have, how you deal with disputes, the number of complaints you have had and whether you pass on some of the more egregious disputes on to regulators for formal action? Like Senator McEwen, I have had a number of constituents who have complained about practices with respect to this. My first substantive question goes to your submission. On behalf of your members, the energy retailers, you have

9 Sue Mitchell, Gemma Daley and Fleur Anderson, *Gambled away: Pokies swallow carbon tax compo*, Australian Financial Review, 18 July 2012, p. 1.

basically cried victim. You have said that it is important that senators understand that the retailers are the billing agent for the entire electricity industry and the value chain—meaning that they bear much of the consumer backlash over rising electricity prices. To what extent do you think that consumer backlash is in part due to AGL boss Michael Fraser's pay going up 85 per cent from $3.4 million to $6.3 million and that Origin Energy's managing director Grant King's package is now $8.348 million—a rise of $600,000 in one year?

Mr O'Reilly: I would say to you that we are fortunate that the two largest energy companies in this country—which are in the top 20 ASX listed companies—have performed very well in recent years in a very challenging climate for shareholders.

Senator XENOPHON: That is not my question. I am asking about the consumer backlash. Do you acknowledge that some of these massive pay rises by members of your association have caused a degree of that consumer backlash?

Mr O'Reilly: I would say that they are held to account by their boards, and as the federal government has introduced further powers for shareholders to look at executive pay, in this case it appears that the board and shareholders of those companies are happy. These things come to light because of transparency and reporting of executive salaries, which is a good thing.

Senator XENOPHON: That is not my question. You made an assertion in your submission that the retailers bear much of the consumer backlash over rising electricity prices—and you do not consider that the hefty pay rises given to AGL boss Mr Fraser and Origin's Grant King have anything to do with that consumer backlash?

Mr O'Reilly: Executive salaries is an issue which is something that is held to account by boards and by the opportunity for shareholders to now vote on remuneration reports. These companies are billion dollar companies upon which we rely to build our future generation and to provide an essential service. If they are doing a good job then I do not think that encouraging envy is necessarily a good way to be dealing with the issue of our rising electricity prices.

Senator XENOPHON: I am not encouraging envy; I am just asking you whether you acknowledge that when consumers are facing rising power prices and they see that an energy retailer gets an 85 per cent pay rise—up to $6.3 million—that could fuel part of that consumer backlash.

> Mr O'Reilly: I am not accountable for how much my respective member CEOs get paid. The boards of those companies are and they seem to be happy with the job they are doing. What I would say is that these companies are going to play a critical role in building the future generation of this country and delivering reliable electricity, and I hope they are run by the best people available who are getting paid appropriate dollars.[10]

Senator Nick Xenophon
Senator for South Australia

10 Mr Cameron O'Reilly, Chief Executive Officer, ERAA, *Proof Committee Hansard*, 25 September 2012.