

# **ADDRESS TO ENERGY USERS' ASSOCIATION**

## **NSW ENERGY FORUM**

**HILTON HOTEL, SYDNEY 4 SEPTEMBER 2017**

### **Introduction**

In NSW today, families and businesses - large and small - are facing record electricity prices. Annual average increases of \$320 (households) and \$920 (small business) are expected, with many paying much more. BlueScope Steel has announced it is facing increases of 93 per cent over the next two years.<sup>1</sup> Milltech, a manufacturer based in Tomago, is facing rises of 160 per cent from the end of this year, wiping out three years' hard work achieving savings through energy efficiency.<sup>2</sup> The roll call of examples is extensive, and growing.

These increases are occurring because the Liberal-National Government has done everything it can to drive up electricity prices. For six years they have had one energy policy – privatise everything. The result is an electricity supply that is fast becoming unaffordable.

There is also the emerging risk to our electricity supply, as we saw on 10 February this year.

NSW Labor has a comprehensive plan to make electricity affordable and secure. As Leader Luke Foley stated in his Budget reply this year, a NSW Labor Government will re-regulate the electricity companies to ensure that consumers are treated fairly.

This policy announcement was received with some skepticism, by media commentators and even some informed stakeholders, perhaps based on the notion all we were proposing was a return to the previous IPART-set fixed tariff. That is far from the case.

Today, I will set out some of the Labor Opposition's thinking on this matter.

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<sup>1</sup> <http://www.smh.com.au/business/mining-and-resources/bluescope-taps-new-ceo-warns-earnings-set-to-slide-20170820-gy0hqp.html>

<sup>2</sup> <http://www.theherald.com.au/story/4875985/12m-energy-bill-shock-for-tomago-company/>

## **Background**

Before I set out some of the elements of the Labor solution to the present electricity price crisis, it is important to understand how we got here. The current Premier and her Energy Minister say it is failures in the National Electricity Market, and actions by other State Governments, that have caused the present difficulties. It is certainly true the NEM, and in particular the National Electricity Law, could do with improvement. Notably absent is any focus on the environment, for example.

High prices are, in part, due to a lack of investment in new supply over the last decade – itself a direct result of a lack of a national plan. There was a national consensus on energy and climate policy a decade ago. One side of politics walked away from that and this has created many of the problems we experience today. Even though the Finkel Review proposal for a Clean Energy Target has been put forward, and the Labor side of politics at State and National level have indicated they are prepared to co-operate on a national approach, still the Coalition parties cannot return to the table on this vital matter.

The price increases now being experienced have also been directly brought about by the following, deliberate decisions of the present NSW Liberal-National Government:

1. In 2013 the NSW Government sold Mt Piper and Wallerawang power stations and allowed the new private owner of Wallerawang to close the power station without replacing the 1000 MW of electricity it produced. Less supply means higher prices.
2. At the same time the Government maintained its ideological opposition to renewables. The Climate Council has ranked NSW as the “worst state” for renewables.<sup>3</sup> In the last week, while improving its position, NSW is still ranked by the Climate Council as being now only the third worst of the eight sub-national jurisdictions.<sup>4</sup>
3. In 2014, the NSW Government sold Bayswater and Liddell power stations to AGL even though the ACCC warned that this would

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<sup>3</sup> <http://www.smh.com.au/nsw/nsw-is-australias-worst-state-for-renewable-energy-use-report-finds-20160524-gp2hs1.html>

<sup>4</sup> <https://www.climatecouncil.org.au/2017-states-report>



reduce competition in the retail market.<sup>5</sup> Less competition means higher prices.

4. In July 2014, the Government deregulated retail electricity prices. Just months later, the three big electricity retailers were charging two to three times more to sell electricity in NSW than the regulated retailer in the ACT was charging.<sup>6</sup> Within a year, retailers were charging 10-15 per cent more for electricity. Since then, in the following year, electricity prices increased by an average 8 per cent across the board. From 1 July this year, they have increased again by up to 20 per cent. By comparison, inflation has increased by a little over 2 per cent each year, and wages growth has been at less than 2 per cent.<sup>7</sup>
5. Through 2015-17 the State Government went to court with tax payers' money to stop the Australian Energy Regulator cutting network costs. Depending on their distributor, this court case cost average households up to \$300 a year and small businesses up to \$523 a year. In total, more than \$6 billion could have been saved – except for the Government's court challenge.<sup>8</sup>

The impacts of these price increases are already severe and getting worse.

Supermarket chain, Coles, has also undertaken research showing that nearly one in four households is not buying enough groceries - because they are struggling to pay their electricity bills.<sup>9</sup>

The CEO of NCOSS, Tracy Howe, has warned that the bills will push families to crisis point: "To see families in our state struggling to put food on the table because of power bills is simply unacceptable."<sup>10</sup>

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<sup>5</sup> <https://www.accc.gov.au/media-release/accc-opposes-agls-proposed-acquisition-of-macquarie-generation>

<sup>6</sup> <http://www.smh.com.au/cgstatic/gqt0m0/bmretailreport.pdf>

<sup>7</sup> <http://www.smh.com.au/business/the-economy/australian-wages-stall-at-record-low-of-1.9-per-cent-20170815-gxx44w.html>

<sup>8</sup> <https://www.aer.gov.au/news-release/aer-expects-final-decisions-to-lower-electricity-bills-for-act-and-nsw-customers>

<sup>9</sup> <http://www.sbs.com.au/news/article/2017/07/27/food-spend-hurt-power-costs-coles-boss>  
<http://www.theaustralian.com.au/business/companies/families-squeezed-by-rising-cost-of-living-pressures-coles-chief/news-story/54bb394319fe0c4b8b2f295893cc0d>

<sup>10</sup> <http://www.armidaleexpress.com.au/story/4735058/families-sacrifice-meals-and-gp-visits-to-pay-for-electricity/?cs=7>

The announcement made by the current Premier yesterday - of increased rebates and assistance for energy efficient appliances - while better than nothing are very much only a band-aid solution for some of the most vulnerable customers. There is nothing in those measures for the vast majority of customers and no structural solution to the problems we face. It should also be remembered that the amount in this year's Budget of \$257 million for vulnerable customers is actually less than the \$259 million in the previous year's Budget. As recently as Friday's Budget Estimates hearing, when I put to the Minister his Government's rebates had not been increased in line with the latest power company increases, he did not disagree.

If the Premier's weekend announcement is new money - only months into the new Budget - it shows that she has realised cutting help for those who most need it is not washing with the community, but not how to get NSW out of the mess she - and those she has served with in Cabinet over the last six years - have made. If this is simply a Budget re-announcement, it is breathtakingly cynical.

### **The effect of de-regulation**

The deregulation of electricity prices took effect from 1 July 2014. St Vincent De Paul examined the standing offers of retailers and reported that 12 months later prices had increased:

*NSW electricity standing offers that took effect in July 2015 produce annual bills that are typically \$160 - \$180, or 8%, more (depending on network area and meter type) than they were last year.*<sup>11</sup>

A recent report by CME, an economics consultancy, reported that:

*The Big Three retailers (AGL Energy, Energy Australia and Origin Energy) are charging two to three times more to sell electricity in NSW, VIC, SA and QLD than the regulated retailer in the ACT is charging. The regulated retailer charges in the ACT are much lower than the retailer charge on the best offers from the Big Three in any region of the NEM.*<sup>12</sup>

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<sup>11</sup> [https://www.vinnies.org.au/icms\\_docs/253126\\_NSW\\_Energy\\_Prices\\_July\\_2016.pdf](https://www.vinnies.org.au/icms_docs/253126_NSW_Energy_Prices_July_2016.pdf) p6

<sup>12</sup> <http://cmeaustralia.com.au/wp-content/uploads/2013/09/160815-FINAL-getup-retail-report-.pdf> p2



The Grattan Institute examined electricity retailing and reported:

*The evidence provided in this report and by other research over the past decade indicates that excessive profits are being made in the retail electricity market. This was not the result intended when competition was introduced.*<sup>13</sup>

*Competition in electricity retailing has failed to deliver lower prices for consumers, and governments will need to step in and re-regulate prices if the industry does not lift its game.*<sup>14</sup>

### **Re-regulation now mainstream thinking**

As I indicated at the outset of my remarks, when NSW Labor Leader, Luke Foley MP, announced that a Labor Government would re-regulate electricity prices there was some skepticism from observers - both as to whether it was a good idea, and as to its practicability.

In the face of this resistance, we persevered in making the case in favour, based on the lived experience of families and businesses across this State. Today, this notion has clearly taken hold.

On 8 August, the Australian Energy Market Operator chief executive, Audrey Zibelman, said government would have no choice but to put more regulation on electricity retailers if they could not show how they were going to reduce prices, especially for low income households.<sup>15</sup>

The current Prime Minister has twice had the electricity companies to a meeting to put pressure on them to lower prices.

Just over a week ago, the Federal Energy Minister said that if the energy companies did not reduce their prices, the Commonwealth Government would have to intervene. This comes not long after the Commonwealth indicated it would place export restrictions on gas producers, to keep

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<sup>13</sup> <https://grattan.edu.au/wp-content/uploads/2017/03/Price-shock-is-the-retail-market-failing-consumers.pdf>  
p20

<sup>14</sup> <https://grattan.edu.au/report/price-shock/>

<sup>15</sup> [http://www.afr.com/news/politics/energy-retailers-face-more-regulation-unless-they-cut-prices-says-aemo-boss-20170807-gxrfed?login\\_token=qa6bu52zpnP-spvHyUK0jq6VdExMdwQ-9RQaKjiN38OtrP8x3mudUfa1Ncy4hacjVMIduzTxCjX0JtHJjKx6g&expiry=1502176636&single\\_use\\_token=ogsFNcj6vRjf88kj4c4O84vMh93dTHSMX3TuxuBTZcy65U4J8Hr3SY1qHx-cfRh-tJuvdiZYYdk09XQI7MpzOw](http://www.afr.com/news/politics/energy-retailers-face-more-regulation-unless-they-cut-prices-says-aemo-boss-20170807-gxrfed?login_token=qa6bu52zpnP-spvHyUK0jq6VdExMdwQ-9RQaKjiN38OtrP8x3mudUfa1Ncy4hacjVMIduzTxCjX0JtHJjKx6g&expiry=1502176636&single_use_token=ogsFNcj6vRjf88kj4c4O84vMh93dTHSMX3TuxuBTZcy65U4J8Hr3SY1qHx-cfRh-tJuvdiZYYdk09XQI7MpzOw)

domestic users supplied at more reasonable prices.<sup>16</sup> This is important, not only because of the spiralling cost of another form of energy but also because of the role gas plays in generating electricity.

Interestingly, NSW Labor proposed measures consistent with this in the wake of the report of a NSW Legislative Council committee on the supply and cost of gas.<sup>17</sup> The NSW Coalition Government, as well as gas producers, attacked our ideas. Now, a Commonwealth Coalition Government has - at least in a formal sense - embraced this in the face of the reality of companies losing their financial viability under the weight of cost rises and the threat to employment, especially in the manufacturing sector. I say they have embraced it in a formal sense because they did so last year and were to impose export restrictions from 1 July this year, but have not done so. New regulations to restrict gas exports have been announced to start from 1 January 2018. Until we see the text of those regulations, we won't know how effective or strong they will be.

Why the Commonwealth is taking so long to act is unclear, given how clear the evidence is that action is needed now. Importantly, the Commonwealth seems much more advanced on the gas issue, than on electricity, so perhaps we should not expect Commonwealth action on electricity prices anytime soon.

But action is needed and it is needed now.

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<sup>16</sup><http://www.heraldsun.com.au/news/gas-exporters-to-face-restrictions-as-government-attempts-to-cut-power-bills/news-story/e9ad8a9b9a68de24d358c83cd84b82ba>

<sup>17</sup><https://www.parliament.nsw.gov.au/committees/DBAssets/InquiryReport/ReportAcrobat/5291/120225%20Final%20report.pdf>



## **Re-regulating electricity prices**

NSW Labor's plan will involve re-regulation.

Labor has already announced several measures in response to the electricity crisis:

- **Eliminating energy company super profits**, by establishing regulatory oversight of retail energy prices, with a mechanism to ensure energy company super profits are returned to the households and businesses of NSW. I will provide more detail on this shortly.
- **Using proceeds from the nationalisation of the Snowy Hydro to invest in renewable generation across regional NSW.** The current NSW Government has said only 30 per cent of these proceeds will be spent in the regions and has not ear-marked any for energy projects. Labor will spend it all on direct investment in new, renewable energy generation projects across regional NSW. One consequence of the privatisation binge of the present Government is that we are now at the mercy of private investors in the energy sector. With the right market settings, that might still lead to appropriate outcomes but is more likely to lead to a shaky, unstable and unfair transition to a low carbon future. Labor believes there is a role for direct public investment to ensure a smooth and fair energy transition.
- **Make the IPART solar tariff mandatory and mandate net billing**<sup>18</sup> – so that households with rooftop solar are paid fairly for the power they produce. At present, the IPART recommended feed-in tariff is voluntary and there is marked variation among energy retailers about how much is paid to consumers. Many retailers are claiming they cannot give full credit for rooftop solar until smart metres are in place. Of the nearly 350,000 solar households in NSW somewhere between 36,000 and 60,000 have been provided with smart meters. Net billing is needed to ensure a

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<sup>18</sup> Only charging customers any difference between the energy they produce and the energy they consume

fair price is paid to solar households and to provide an incentive for energy companies to invest in storage technologies.

- **Massively increase clean solar energy generation on the rooftops of government-owned buildings.**

Labor has also called on the Government to immediately tender for 100MW of storage to be delivered and in place for this coming summer to ensure the state is spared blackouts.

It should be noted that while general retail margins are at around 6 per cent, those in the retail electricity market are nationally at 12 per cent. The Grattan Institute report disclosed that they were even higher in Victoria at between 13-22 per cent, and even as high as 40 per cent. We do not have an authoritative figure for NSW, but lived experience and runaway price increases suggests it is at least at the national benchmark and probably not a lot better than in Victoria.

To ensure that consumers are treated fairly, a NSW Labor Government will adopt measures to give effect to our commitment to re-regulate. We will:

- Require the provision of data about the cost structures, customers and offers of each retailer so that an independent regulator can provide effective monitoring of retailer margins. Ideally, this could be done nationally by the Australian Energy Market Commission (AEMC), but if not NSW will empower IPART to do it.

We will then give the regulator the power to '*claw back*' excessive profits made by energy retail companies and return them to customers if their return on investment exceeds an appropriate level of returns in any year.

In the recent motor accident legislation enacted by Parliament, the current Government included a regulatory power to enable the State Insurance Regulatory Authority to quantify and then recover excess profits made by private sector insurers and return it as premium savings to policy holders. We will do the same for retail energy prices, with a revamped IPART as the regulator.



- **Improve transparency** by requiring each retailer to provide information on prices and usage that is easily comparable. Eliminating confusion in advertising should make it easier for households to find the best deal for them.
- **Require the breakdown of each electricity bill be to be disclosed.** This way customers will be able to see how much each bill is comprised of the costs of the network, the energy generator, as well as the retail company to provide greater transparency on household and business energy costs. Customers will be able to see how much they are paying, to whom and for what services.
- **Require electricity companies participating in concession payment or rebate schemes ensure that vulnerable customers are on the best market offer.** Hundred of millions of dollars is paid each year here, and in Victoria and other jurisdictions, by State and Territory Governments to provide relief for the most vulnerable customers but there is no corresponding requirement on the energy companies to ensure those customers are getting the best deal. This is not only unfair to those customers but also undermines the value of government investment in this area.

In addition, I believe a NSW Labor Government should also:-

- **Make it easy for consumers to pick the best deal for them by having a standard comparator.** This can be achieved by requiring the provision of a Basic Service Offer: an offer that is not greater than a regulated price based on an annual usage, set by an independent regulator. This was recommended by both the Grattan Institute and by the recent review of the retail electricity and gas market in Victoria by Professor Thwaites' and others.<sup>19</sup>
- **Ensure that consumers are properly informed of tariff changes.** For example, many discounts apply for one or two years, and when they expire the contract will go to new tariff. Unless consumers take action they may end up worse off. Regulation is necessary to make it clear: "Unless you contact us you will pay \$300 more per year for electricity." This raises the significant issue about which offers made by electricity companies

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<sup>19</sup> [https://www.energy.vic.gov.au/data/assets/pdf\\_file/0030/79266/Retail-Energy-Review-Final-Report.pdf](https://www.energy.vic.gov.au/data/assets/pdf_file/0030/79266/Retail-Energy-Review-Final-Report.pdf)

should have to be 'evergreen' and which should be allowed to have a time limitation.

□ **Require 'truth in advertising' for electricity companies' offers.**

At present, retail energy companies are required periodically to publish their 'standing offers'. When they offer discounts to new customers for signing up if they pay on time, combine gas and electricity bills, or bills for multiple properties, or other combinations, they are offered significant 'discounts'. But those discounts are off the latest 'standing offer' not necessarily a discount compared to a consumer's existing spend. This needs to be remedied so any discounts being offered are properly expressed and able to be understood.

These proposals will create greater scrutiny on energy companies and put downward pressure on energy prices for households, families and businesses. We will also continue to closely examine the Victorian review, to see if other recommendations it makes should be taken up in NSW. At the same time we will continue to engage with industry, consumers and others in this space, to inform our policy development as we head towards the next State election in March 2019 – only 19 months away.

This is not the only frontier for action or potential future regulation. As the National Secretary of the Electrical Trades Union, Alan Hicks, recently reminded us<sup>20</sup> the electricity system is comprised of many parts and attention needs to be paid to the generators as well and complaints that they have profiteered during the recent extreme weather events recently in South Australia and this year across the country, including here in NSW. This may be particularly pertinent when we look at those big energy companies which are vertically integrated.

Just as the difficulties with our electricity system did not occur overnight, so too will the solutions take time to yield results. But action must start now.

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<sup>20</sup> <http://www.canberratimes.com.au/comment/turnbulls-solution-to-energy-crisis-is-woefully-mild-20170901-gy8ovp.html>