REVIEW OF ACCC REPORT ON ELECTRICITY AFFORDABILITY AND AUSTRALIA'S COMPETITIVE ADVANTAGE

PROJECT CODE:	**2019-1005**
MILESTONE NUMBER:	**2**
PREPARED BY:	**S G Heilbron Economic and Policy Consulting**
DATE SUBMITTED:	**August 2018**

The Australian Meat Processor Corporation acknowledges the matching funds provided by the Australian Government to support the research and development detailed in this publication.

TABLE OF CONTENTS

1.0 MILESTONE DESCRIPTION

The Achievement Criteria for Milestone 2 for Project 2019-1005 is the production of this final report and SnapShot.

2.0 ABSTRACT

The Milestone 2 report incorporates reading the ACCC's report "Restoring electricity affordability and Australia's competitive advantage - Retail Electricity Pricing – Final Report by ACCC", June 2018 and addressing the following requirements:

- Potential impact on red meat processors.
- Sub-sectors most significantly affected.
- Potential scale of the implications.
- Actionable conclusions and recommendations.

3.0 PROJECT OBJECTIVES

The key objective of this Project was to provide a timely assessment of the implications for the red meat industry of the findings of the ACCC's report on electricity affordability and Australia's competitive advantage.

This analysis flows on naturally from the research undertaken in Project 2017-1062 Milestone 12 report (the 'Cost to Operate report') and will have value in the process of research developing detailed policy recommendations for the industry as suggested by that Report.

4.0 METHODOLOGY

The methodology adopted in the preparation of this Milestone report incorporated reviewing the ACCC report and analysing its contents, including by reference to the SG Heilbron Project 2017-1062 Milestone 12 Report.

5.0 KEY FEATURES OF THE ACCC REPORT

The ACCC report totals some 400 pages and contains 56 recommendations. The following are the key features of the report from the perspective of the red meat processing industry.

The ACCC inquiry which produced the report on electricity was focused on reducing electricity charges. The ACCC is confident that there is much that can be done to boost competition, lower costs and improve consumer experiences in the electricity market. In doing so, it believes the national energy market can be 'reset' to return Australia's competitive advantage in electricity and restore consumer confidence.

The ACCC report is mainly focused on the retail market for electricity. However, there are sections of the report that deal with commercial and industrial customers (which would include red meat processors).

Reductions in electricity prices

The ACCC claims that its recommendations if implemented, would put downward pressure on electricity prices and go a significant way to resolving Australia's electricity affordability problem. It estimates that average annual residential bill savings would be between 20 and 25 per cent in 2020-21 relative to 2017-18, with the biggest falls being in SE Queensland and the lowest in Victoria.[1]

The ACCC claims that achievable savings for commercial and industrial (C&I) customers are estimated to be 26 per cent by 2020-21. The Commission does not provide a breakdown of this figure by State. The savings for C&I customers is larger than for residential customers because wholesale costs make up a proportionately larger share of their prices so the significant savings to the wholesale component have a bigger impact for these customers.[2]

The ACCC explains that C&I customers are characterised by larger electricity usage, generally more than 100 MWh per year, although some retailers have even higher thresholds for their definition of 'commercial and industrial'. C&I customers can include manufacturers, supermarkets, universities and other large businesses. The contracts for such customers are typically very different to those for residential or SME customers.[3]

The data provided to the ACCC demonstrates that there is a large amount of variability across C&I customers in their usage, meaning that there is no 'typical' C&I customer. For example, one C&I customer may consume over 1000 MWh per year while another may consume less than 300 MWh per year. C&I customers in the National Electricity Market (NEM) pay almost half the price for electricity that residential customers pay. This reflects economies of scale in supply as well as much lower retail costs and margins.

Over the period from 2007–08 to 2017–18, the average cost of electricity for C&I customers increased noticeably across the NEM. On a c/kWh basis, the price increase was around 58 per cent in real terms. The ACCC breaks the components of prices into wholesale costs, network costs (transmission and distribution), environmental (green) scheme costs, and retail costs and margins.

Network, and more recently, wholesale costs have made up the majority of the price increases over the period, contributing 35 and 45 per cent respectively. Environmental schemes have contributed 21 per cent to increases in prices. Retailer costs and margins have played a negligible role and have not contributed to the increase when combined[4].

[1] ACCC Report, Page xv
[2] Page xvi
[3] Page 31
[4] Page 352

The wholesale cost of electricity is the cost that a retailer incurs to purchase electricity from the NEM and manage the associated risk. Retailers purchase electricity from generators through the NEM wholesale market at the current spot price, but manage the price risk of the fluctuating spot price through a variety of hedging instruments or vertical integration into generation. Retailer cost information provided to the ACCC shows that on a NEM-wide basis, wholesale costs accounted for 34 per cent of the retailer cost stack in 2017–18.[5]

With regard to network costs, as the ACCC points out electricity networks carry electricity from generators to customers. Transmission networks transmit power at high voltages from generators to major demand centres. Distribution networks then step down electricity to lower voltages and carry it to businesses and homes (and may also carry electricity back from those businesses and homes).[6]

Network costs are, on average across the NEM, the largest component of the overall bills paid by electricity consumers. The ACCC's estimates based on retailers' cost information are that, for 2017–18, the network costs make up 43 per cent of the overall costs[7]. Distribution costs make up a majority of network costs followed by transmission and then metering. Network costs have also been responsible for the largest part of the increase in those overall amounts between 2007–08 and 2017-18. The contribution to costs by networks differs by state, being highest in Queensland and lowest in Victoria.

There are five state-based transmission networks in the NEM and 13 major distribution networks. The ACT, South Australia and Tasmania each have one major distribution network. Queensland, NSW and Victoria each have multiple distribution networks. The networks have a variety of ownership structures, with Victorian and South Australian networks having been privatised, Tasmanian and Queensland networks being government-owned, the ACT network being partly privatised, and NSW having a mixture of government-owned, partly-privatised and fully-privatised networks.

Electricity transmission and distribution networks display strong natural monopoly characteristics that mean competition is unlikely to arise. As such, all networks are subject to regulation to ensure that they do not exploit their monopoly power. Given the significance of these charges to the customer bill, the ACCC considered that it is important to identify ways to bring down the network component of the bill.

6.0 THE ACCC'S KEY RECOMMENDATIONS

As noted above, the ACCC report has 56 recommendations. Virtually all the ACCC's recommendations relating to business are targeted at Small and Medium Enterprises. The ACCC points out that industry accounts for 34 per cent of total electricity consumption in the NEM and large users, including aluminium production, account for almost half of this.

[5] Page 32
[6] Page 156
[7] It should be noted that the analysis used in the SG Heilbron Cost to Operate Report (Project 2017-1062 Milestone 12) of assuming around 40% of electricity costs are regulated is consistent with the ACCC's estimates.

The commercial sector accounts for 26 per cent of total electricity consumption. The commercial sector includes a wide range of businesses including financial services, commercial building services, construction and retail services, as well as public services and agriculture.

The most pressing concern for large users is sharp increases in their electricity costs largely driven by wholesale prices with some industrial users having seen substantial increases, in some cases a doubling or tripling, against their most recent electricity offer.[8] The following table from the ACCC report (Table 2.1) indicates the rise in wholesale spot electricity prices over time by State, indicating the very significant increases from 2015-17 which have only been partially reversed in 2018.

Wholesale spot prices by region ($/MWh nominal), average from 2008 to 2014 and annual averages for 2015 to 2018 (to June)

	Queensland	NSW	Victoria	South Australia	Tasmania
Average 2008 to 2014	$46	$45	$44	$66	$42
2015	$58	$41	$36	$56	$48
2016	$72	$62	$52	$90	$93
2017	$112	$102	$97	$120	$99
2018 (to June)	$70	$75	$104	$128	$86

Source: ACCC analysis of AEMO data.
Note: Prices are volume-weighted spot prices.

Medium-sized businesses are generally price takers and still experience some challenges when engaging with retail electricity markets. The barriers to engaging with the retail markets as described earlier in the chapter are not limited to small businesses, with many medium-sized businesses facing similar issues with comparing complex offers and negotiating their electricity contracts. Submissions indicated that many medium-sized businesses engage with retailers, or third parties like energy brokers, and rarely engage directly in the wholesale spot market. The ACCC has learnt from consultations with medium-sized businesses that engaging with the wholesale market is generally unattractive due to the complexity of managing energy procurement and the difficulty around procuring competitively priced hedging contracts, particularly in markets with limited liquidity.[9]

There are some key recommendations which relate indirectly to C&I customers such as the red meat processing industry because they would reduce overall costs and hence large business would benefit as well as other electricity users. These are identified below in the discussion of the relevant rea of the market to which the recommendations relate. They include:

- The Australian Government should operate a program under which it will enter into low fixed-price (for example, $45–$50/MWh) energy offtake agreements for the later years (6–15) of appropriate new generation projects which meet certain criteria

[8] Page 350
[9] Page 349

- There should be a prohibition on acquisitions and other arrangements (other than investment in new capacity) that would limit market shares to 20 per cent in any NEM region and across the NEM as a whole to prevent further harmful concentration.

- The Queensland Government should divide its generation assets into three generation portfolios to reduce market concentration in Queensland, with each portfolio separately owned and operated to drive competition in generation markets.

- Governments of Queensland, NSW and Tasmania should take immediate steps to remedy the over-investment of their network businesses in order to improve affordability for consumers. With appropriate assistance from the Australian government, this can be done: in Queensland, Tasmania and for Essential Energy in NSW, through a voluntary government write-down of the regulatory asset base (RAB)

- In NSW, where the assets have since been fully or partially privatised, through the use of rebates on network charges (paid to the distribution company to be passed on to consumers) that offset the impact of over-investment.

- Any costs remaining from premium solar feed-in schemes should be borne by state governments through their budgets, as Queensland has done, rather than being recovered through charges to electricity users. Further, the ACCC is recommending that the Small Scale Renewable Energy Scheme (SRES) should be wound down and abolished by 2021 to reduce its impact on retail prices paid by consumers.

Wholesale markets

The ACCC has recommended a package of changes to improve competition in wholesale markets by encouraging investment in new generation across the NEM and addressing market concentration.[10] The ACCC believes these recommendations will provide the necessary signals to bring down wholesale prices and improve the outcomes for C&I customers.

The ACCC points out that larger businesses, faced with higher electricity costs, have been doing what they can to lower these costs through formation of buying groups and seeking to self-supply some of their load. The ACCC states there are some examples of these measures being effective and cites the example of the South Australian SACOME energy buying group comprising businesses in the mining, university, property investment, and manufacturing and food sectors. Together, the group's total load accounts for around 16 per cent of electricity demand in South Australia. According to the ACCC, on 8 June 2018 SACOME awarded an eight-year supply contract to a renewable energy retailer, underwriting new investment in generation capacity in South Australia. SACOME reported that this will significantly reduce the cost of electricity for their members.[11]

However the ACCC suggests that more support for these arrangements could further reduce pressure on businesses' electricity costs. For example, the investment case and ability to source funding for many new generation projects can be heavily reliant on having customer commitments to off take for up to 10–15 years. This is rarely possible for many businesses that can only commit to a shorter term

[10] Page viii
[11] Pages 349-350

of contract (for example, up to five years). It is likely that more projects could be undertaken, thereby providing additional sources of competition to existing wholesale competitors and directly helping businesses manage their electricity costs, if government support was provided for the 'back end' of suitable projects.

It therefore recommends that the Australian Government should operate a program under which it will enter into low fixed-price (for example, $45–$50/MWh) energy offtake agreements for the later years (6–15) of appropriate new generation projects which meet certain criteria. In doing so, project developers will be able to secure debt finance for projects where they do not have sufficient offtake commitments from C&I customers for later years of projects. This will encourage new entry, promote competition and enable commercial and industrial customers to access low-cost new generation.

It also recommends that there should be a prohibition on acquisitions and other arrangements (other than investment in new capacity) that would limit market shares to 20 per cent in any NEM region and across the NEM as a whole to prevent further harmful concentration.

It recommends that the Queensland Government should divide its generation assets into three generation portfolios to reduce market concentration in Queensland, with each portfolio separately owned and operated to drive competition in generation markets.

Network costs

The ACCC also claims that its recommendations for networks and environmental policies will also be of great assistance to C&I customers given the proportionally larger contribution to C&I bills made by these cost components.

The key recommendations in relation to network costs this regard[12] relate to:

- In NSW, Queensland and Tasmania there has been significant over-investment in state-owned networks, driven primarily by excessive reliability standards and a regulatory regime tilted in favour of network owners at the expense of electricity users. This has enabled networks to recoup billions of dollars of extra revenue from consumers.

- The ACCC recommends that governments of Queensland, NSW and Tasmania should take immediate steps to remedy the over-investment of their network businesses in order to improve affordability for consumers. With appropriate assistance from the Australian government, this can be done: in Queensland, Tasmania and for Essential Energy in NSW, through a voluntary government write-down of the regulatory asset base (RAB)

- In NSW, where the assets have since been fully or partially privatised, through the use of rebates on network charges (paid to the distribution company to be passed on to consumers) that offset the impact of over-investment. The write-downs and rebates should result in at least $100 a year in savings for average residential customers in those states.

[12] Page x

Environmental costs

The ACCC is recommending that any costs remaining from premium solar feed-in schemes should be borne by state governments through their budgets, as Queensland has done, rather than being recovered through charges to electricity users. Further, the ACCC is recommending that the Small Scale Renewable Energy Scheme (SRES) should be wound down and abolished by 2021 to reduce its impact on retail prices paid by consumers. [13]

How do the ACCC's recommendations translate into lower costs?

- Wholesale prices reduction – The ACCC has assumed an effect of $5/MWh for government assistance for new entry in generation/ self-supply.[14]

- Network costs reduction – The ACCC has assumed a reduction in bills by the amount of its recommended Regulatory Asset Base write down. These total an estimated $10.3 billion.

- Environmental costs - The main saving here is bringing premium solar FiT schemes onto state budgets.[15]

- Retail prices - For market offer customers, the ACCC has assumed it is achievable to get 20 per cent of customers on market offers with discounts between zero and 10 per cent to move to market offers with discounts of at least 30 per cent.[16]

An important relates to the impact of deregulation as a factor in driving up prices. The ACCC does concede that we have not seen competition deliver the benefits that were anticipated when retail markets were deregulated, even after the entry of many new electricity retailers in recent years.

One key finding is that the three largest retailers have advantages that continue to flow from their acquisition of large customer bases at the time of deregulation, which makes it challenging for smaller retailers to compete effectively. Moreover, the ACCC Chairman has argued that the major culprits in terms of network charges driving up prices have been in Queensland and NSW where networks were not privatised.

Finally, it must be pointed out that the achievement of the ACCC's recommendations depends on agreements and decisions between and by Federal and State Governments. This can by no means always be assured to take place.

[13] Page xi
[14] Page 366
[15] Page 367
[16] Page 368

7.0 IMPACT ON RED MEAT PROCESSORS

Energy costs are significant in the cost structure of red meat processors. The Project 2017-1062 Milestone 12 report indicated that processors spend $340 million on energy. Approximately 60 per cent of energy costs are accounted for by electricity for beef processing as a whole according to the Cost to Operate report. The ACCC report suggests that electricity prices will fall 26% by 2010-21 which would reduce energy costs as a whole by about 15% all other things being equal, delivering a benefit to the industry of a reduction in energy expenditure of just over $50 million.

The impact of the ACCC's recommendations on red meat processors could be expected to vary among processors. The ACCC claims achievable savings for commercial and industrial customers of 26 per cent by 2020-21 but the Commission does not provide a breakdown of this figure by State. It notes that the approach to calculating savings for C&I customers is the same as for residential customers with a number of exceptions, the most significant being an assumed zero saving is attributable to the retail component of the cost stack.[17].

Using the ACCCV's calculations for savings in residential bills and setting the retail component savings as zero suggests that bill saving for C&I customers by 2010-21 will be reasonably similar for all States. Residential savings in SE Queensland and NSW are relatively higher than in other States, but the main savings in those States are generated by reduced network and wholesale costs rather than retail costs.

These cost savings are likely to be more beneficial to the more intensive users of electricity i.e. those with a higher usage per unit of output. This may not necessarily be the bigger volume users, since they may actually be more inclined to adopt technologies which save on energy usage per unit of output. In fact, inspection of data gathered for the Cost to Operate report indicates some signs that larger plants have lower costs per unit of output than smaller plants. Accordingly, reductions in the price of electricity can benefit smaller operators relatively more than larger ones.

Similarly, those processors with a more modern plant setup that uses up-to-date energy measurement and control systems may have already generated reductions in energy usage and hence will benefit relatively less from reduced prices than older and less energy-efficient plants.

However, the relatively modest cost savings envisaged by the ACCC report in the context of the huge increase in prices experienced in recent years suggests the lowering in prices will not serve as a disincentive for older and less energy- efficient plants to improve their energy efficiency.

Unfortunately, the data collected on energy usage for the SG Heilbron Cost to Operate report only covers costs does not include volume. SG Heilbron has on a number of occasions recommended to AMPC that future data collection should include volumes used for various types of energy. This would in turn enable analysis of the relative unit costs and usage of energy between different types and scales of plants, in different locations, and with different plant setups.

[17] Page 369

The ACCC's forecast cost savings of 26% would undoubtedly be most welcome to the industry. However, there are a number of factors that need to be considered here.

1. The forecast 26% fall in prices needs to be set against the very substantial increases that have taken place in recent times. The ACCC's Preliminary Report outlined the issues C&I customers face, the most pressing concern being recent sharp increases in their electricity costs largely driven by wholesale prices. Submissions from industrial users to the Preliminary Report confirm that they have seen substantial increases, in some cases a doubling or tripling, against their most recent electricity offer.[18]

Equally however, the ACCC argues that wholesale spot and futures prices are around 30 per cent lower than their 2017 peak.[19] Moreover the ACCC report cites forecasts that forward prices indicate that the market expects spot prices to continue to ease gradually over the next two years. However, most importantly, prices are not expected to return to historical lows seen in the period up to 2015 after which wholesale prices in most States more than doubled to 2017[20]. The most optimistic forecasts prepared for the National Energy Guarantee (NEG) suggest that wholesale prices under business as usual assumptions would fall significantly in 2021 and 2022. The steep decline from current prices reflects the high volume of committed renewable capacity that will come online over the next few years.[21]

2. A reduction in prices of 26% needs to also be seen in the context of international competition and the Australian red meat industry's competitive position, relying as it does on export markets for the major part of its sales. The ACCC report notes that Australian electricity prices, gross margins and net margins are among the highest in the world.[22] According to the ACCC, South Australia has amongst the highest electricity prices in the world. It is comparable to Denmark and Germany which have substantial green taxes. NSW, Victorian and Queensland prices are also high compared to prices overseas. The averaged NEM price is higher than the average across the EU. This underscores the electricity affordability issues facing Australian energy users. Retail margins in Victoria and NSW as a percentage of total electricity bill are higher than all the international regions sampled. The NEM-wide average, which is dominated by these states, is also very high.

Unfortunately the data provided by the ACCC on various countries does not include the countries which are the major competitors of the Australian red meat processing industry. The Cost to Operate report indicates Australian energy costs are more than twice as high as those in the US when comparing costs of processing grain fed beef in Australia compared with the US.

A 26% reduction in electricity prices in Australia will still leave the processing industry facing electricity costs which are 158% higher than the its US competitors. Even though electricity costs in Australia account for around 3% of total operating costs, they are a major cost item totalling hundreds of millions of dollars. In a competitive commodity-based world red meat market where the Australian exporter is a price-taker, every cent in costs is critical to competitiveness and economic viability.

[18] Page 350
[19] Page xiv
[20] Page 48
[21] Page 48
[22] Pages 23-25

3. The ACCC has rejected breaking up major energy utilities in favour of alternative measures, based around limiting further concentration (with the exception that it recommends the Queensland Government should divide its generation assets into three generation portfolios to reduce market concentration in Queensland). The ACCC argues that requiring the divestiture of privately owned assets is an extreme measure to take in any market, including the electricity market. While the way in which concentration has developed in the wholesale market is clearly contributing to current high prices, the ACCC considers that the recommendations made in its report will be a better means to restore competition to a level which serves consumers well.[23] It remains to be seen whether this proves to be an effective means of reducing incumbent market power, and reasonably speedily.

4. In addition, there is a link between the recently-announced Federal Government policy for a National Energy Guarantee and the competition recommendations made by the ACCC in its report. The NEG seeks to provide a settled policy framework under which new investment is encouraged in a way that enables achievement of the objective of reducing carbon emissions at low-cost while promoting investment in a manner that ensures demand for energy is met.[24]

The NEG has two main mechanisms: a 'reliability requirement' and an 'emissions requirement'.[25] Together these two requirements aim to incentivise investment in generation assets (and other technologies) to simultaneously improve the reliability of the NEM and meet Australia's international emissions reductions commitments. Under the NEG, retailers will need to demonstrate that they have certain contracts in place that comply with NEG requirements.[26] Further information about the NEG is attached in Appendix 1.

The ACCC notes concerns about imposing contracting requirements on retailers when a significant proportion of the market is vertically integrated. Vertically integrated participants are able to access their own generation to meet NEG requirements, and may have the ability or incentive to restrict access to third parties. In such a situation, an unintended consequence of the NEG could be to create substantial new barriers to entry and expansion in electricity retailing.

The ACCC notes that it is crucial that the NEG includes safeguards to ensure that the new obligations on retailers do not deliver large incumbents advantages in complying with the scheme, such as those afforded to them through ownership of significant generation portfolios. The Energy Security Board has recognised this risk in the development of the NEG and has sought to address it through mechanisms that will be built into the design of the policy.[27] It remains to be seen whether such designs can be effective in the absence of action to break up the vertically integrated participants.

[23] Page 89
[24] Page 102
[25] Page 131
[26] Page 132
[27] Page viii

5. Finally, higher gas prices have been well documented over recent years, largely due to a ramp-up of liquefied natural gas (LNG) exports linking domestic gas to international prices, declining traditional sources of domestic gas supply and government moratoria and environmental controls preventing and inhibiting new gas supply being brought to the domestic market.[28]

The ACCC report shows a positive relationship between increases in gas prices and electricity prices.[29] As the ACCC has observed in a number of its gas inquiry reports, exploration and development which increase the supply and diversity of supply of lower-cost gas (particularly in southern Australia) will clearly have the biggest impact on the gas market on the East Coast and would be the most effective way of driving gas prices to lower levels. In this regard, the ACCC believes that moratoria and regulatory restrictions in Victoria, NSW and Tasmania are impeding or preventing onshore exploration and development of potential gas resources.

For this reason, the ACCC echoes the East Coast Gas Inquiry's recommendations that governments adopt regulatory regimes to manage the risks of individual gas supply projects on a case-by-case basis rather than using blanket moratoria. The ACCC says that Governments should take into consideration the significant effects that moratoria and other restrictions may have on gas users.[30]

The development of onshore gas and petroleum supply has underpinned the major improvements in energy competitiveness achieved by the United States in recent years which would have been a major benefit to the energy costs facing the US red meat processing industry. The Australian industry should undertake research that assists development of an industry policy on the moratoria currently inhibiting the development of new gas supply in Australia.

8.0 STAGE SUMMARY

This stage of the project reflects the final Milestone report for this Project.

9.0 DISCUSSION AND CONCLUSIONS

The ACCC report contains little that is directly aimed at addressing the electricity cost disadvantage being faced by the red meat processing industry. Its recommendations could serve to address them indirectly to some extent, though actions aimed at increasing competition in the supply of electricity. Most of its actions directly aimed at reducing costs for business users are targeted at small and medium business. Should the ACCC's recommendations achieve their objectives, the cost of electricity is forecast to fall by 26% for commercial and industrial users. Whilst this would be most welcome, there are a number of reasons to be cautious about this projected outcome.

[28] Page 70
[29] Page 73
[30] Page 102

Taken together these considerations suggest the possibility that the solutions being proposed by the ACCC may not be sufficient in terms of impact or timeliness to address the major international costs disadvantage faced by the Australian red meat processing industry.

Actionable recommendations for the industry are:

1. The industry should undertake research with a view to ensuring that government policies reflect the need for the industry to have access to energy costs that are competitive with those of its key international competitors.

2. The industry should continue to monitor, review and evaluate from the perspective of the industry the progress and outcomes of the ACCC report and the NEG given the significance of energy costs to the economic sustainability of the industry in making progress towards achieving the primary test of international competitiveness.

3. The industry should investigate the potential of the various inceptives offered under the NEG in terms of their potential for use by the industry. In this regard, the industry should investigate the potential for processors to access the Emissions Reduction Fund on a preferred basis, given the energy intensity and trade-exposed nature of the industry.

4. The industry should undertake research that supports industry in its energy policy-related initiatives, including gathering of data on energy usage by volume and type for plants with different characteristics e.g. of different size, in different locations, and with different plant configurations, to augment data on energy costs.

5. The industry should undertake research that assists development of an industry policy on the moratoria currently inhibiting the development of new gas supply.

10.0 APPENDIX – THE NATIONAL ENERGY GUARANTEE

According to the Australian Government, the National Energy Guarantee (NEG) aims to make energy more affordable, reliable and with lower emissions.

The Guarantee is made up of two parts that together will require energy retailers and some large users across the NEM to deliver reliable and lower emissions energy generation each year[31].

A reliability guarantee will be set to deliver the right level of dispatchable energy—from ready-to-use sources such as coal, gas, pumped hydro and batteries—needed in each state.

An emissions guarantee will be set to contribute to Australia's international commitments. The level of the guarantee will be determined by the Commonwealth and enforced by the AER.

[31] See https://www.energy.gov.au/government-priorities/better-energy-future-australia

1. Making energy more affordable

The Government says that it is already implementing a range of reforms to make energy more affordable.

- Secured agreement from energy retailers to provide better, clearer and more information with immediate measures that will put households and businesses first.
- Secured agreement from gas companies to ensure there's enough gas for Australian consumers before it is shipped overseas, helping keep prices down and covering any projected shortfalls over the next two years.
- Introduced compulsory arbitration if gas pipeline operators and customers can't reach agreement, reducing the cost of delivering gas.
- Abolished the Limited Merits Review mechanism that has allowed the network companies to game the system at the expense of consumers, which has added around $6.5 billion onto consumers' power bills since 2008. This will stop the networks from being able to appeal the decisions of the AER through the Australian Competition Tribunal.
- Increased the scrutiny of the energy market with more funding to the AER and the Australian Competition and Consumer Commission (ACCC) to ensure consumers get a fair deal.
- Initiated an immediate one-off cash payment to almost four million Australians of $75 for singles and $125 for couples to offset rising power bills for our most vulnerable community members while other energy reforms take effect.
- Boosted energy efficiency and productivity to meet future energy consumption needs and to underpin strong economic growth and lower power bills.
- Created new energy information and services that suit consumers' needs and get them the best deal. Almost 500,000 Australians have visited the Government's Energy Made Easy website in the past two months.

2. Making energy more reliable

The Commonwealth has agreed and is already advancing with the states and territories the implementation of the Finkel Review's recommendations to improve the future security of the NEM.

- An Energy Security Obligation to provide the necessary support services that have traditionally come from coal generation and help stabilise the system as intermittent generation increases.
- A three-year notice of closure that requires large generators to give notice before closing which will provide enough time for investment and system planning.
- An Energy Security Board to oversee the health, security and reliability of the NEM.

Beyond the Finkel Review the Government states it is also securing agreements and making investments to ensure adequate energy supplies for Australians.

- The Australian Domestic Gas Security Mechanism ensures there is enough gas for Australians before it is shipped offshore and gives the Government a trigger should it need to be pulled.
- A Gas Supply Commitment from industry ensures gas will be available to avoid forecast shortfalls, particularly for electricity generation. A separate agreement from the whole gas supply chain is making sure that gas will be available for days of peak electricity demand.
- A package of gas measures in the 2018 Budget worth $90 million to improve the transparency, competitiveness and long-term security of Australia's gas supply.

- An urgent audit of existing thermal generators with AEMO to identify low-cost opportunities to add more dispatchable power and achieve greater efficiency which will improve the reliability of the system.

3. A lower emissions energy supply

The Government says it is investing in new ways to make our energy system cleaner.
The Government last year ratified the Paris Agreement and has set a strong, credible and responsible target to reduce emissions to 26–28 per cent below 2005 levels by 2030. This amounts to a halving of emissions per person and is among the strongest targets of any major economy on that basis.
Reform of the electricity sector, which represents around 35 per cent of Australia's emissions, is important. The new National Energy Guarantee recommended by the Energy Security Board will result in lower emissions over time, consistent with our international commitments.
In addition, the Government has already advanced a lower emissions energy system through a range of actions.

- Clean Energy Finance Corporation (CEFC)—commitments of more than $4.3 billion for projects worth over $11 billion (as at 30 June 2017).
- Australian Renewable Energy Agency (ARENA)—commitments of more than $1 billion matched by more than $2.5 billion in co-funding (as at 30 June 2017).
- The $2.5 billion Emissions Reduction Fund, providing incentives for organisations and individuals to adopt new practices and technologies to reduce their emissions.
- The National Energy Productivity Plan, improving Australia's energy productivity by 40 per cent between 2015 and 2030.
- Supporting carbon capture and storage (CCS) to capture emissions from power plants and industrial sites. We have introduced a Bill to the Parliament to remove the CEFC's prohibition from investing in CCS technology.
- Providing up to $110 million for a new concentrated solar thermal (CST) power plant in Port Augusta, South Australia, supplementing funding available through ARENA and the CEFC, if required.

In addition

- in March 2017, the Prime Minister announced a project that will expand the capacity of the Snowy Mountains Scheme by 50 per cent. Snowy 2.0 can add up to 350,000 megawatt hours a year of electricity to the grid helping to meet our energy needs at times of peak demand and ease volatility in the wholesale electricity market.
- Tasmania—examining four large and nine small scale pumped hydro projects, boosting its capacity and creating a battery for the mainland.
- South Australia—undertaking a feasibility study into a pumped hydro facility at Cultana that would be the first in Australia to make use of seawater.
- Queensland—plans to redevelop the Kidston mine site which will co-locate a large scale solar farm with a large scale pumped hydro project.

Global wind generation costs and domestic solar PV costs have both dropped by more than 50 per cent in the past seven years. By 2020, costs of battery technologies are expected to fall 40–60 per cent and, by 2030, more than 70 per cent.

The Government says it has invested a record amount in energy storage—more than $220 million across the country—and other technology.

- Developing new technology solutions such as the commercially backed $30 million battery on South Australia's Yorke Peninsula, which can strengthen the grid and lower energy prices.
- Supporting 12 new large scale solar farms across Australia, which together will triple Australia's large scale solar capacity.
- Investing $28.6 million to support households and businesses to voluntarily conserve energy in exchange for incentives such as rebates on their power bills. Pilot projects in New South Wales, Victoria and South Australia will help free up temporary electricity supply during extreme peaks, such as summer heatwaves or during extreme weather events and emergencies.
- Investing $13.4 million in the Energy Use Data Model that will enable better forecasting, management and planning of our future energy system and explain energy use behaviour.