

PRESS RELEASE

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Energy Markets at the Crossroads: gas and electricity contracts up 150% for some

Progressively over the last 10 years Australia has given up its comparative advantage in fairly priced, highly reliable energy which has underpinned significant industrial development and employment for many decades. If allowed to continue on this trajectory this comparative advantage will be permanently lost and along with it, a majority of energy intensive industry including many industrial, food processing and manufacturing industries.

This is the blunt messages contained in the Energy Users Association of Australia (EUAA) submission to the *Independent Review into the Future Security of the National Electricity Market*, commonly referred to as the Finkel Review.

“Energy markets are at the crossroads. This is a critical year where decisions made over the coming months will not only determine the direction of key energy market reforms but ultimately they will dictate what kind of industries make up the Australian economy,” said EUAA CEO, Andrew Richards.

To fix this situation, decisive co-ordinated political leadership and long-lasting bipartisanism is required so that energy policy is no longer treated like a political football. Policy makers and industry must come together to not only address the mistakes of the past but to put Australian industry on the path to a competitive and secure transition towards a lower carbon intensive energy system.

“While over the last 10 years energy prices have been steadily growing due to increasing network costs, uncoordinated approaches to renewable energy and uncertainty around long-term policy, it is the savage price rises in gas over the last 1-2 years that defy belief.”

“We fear this is just the start and we expect the bill shock will continue as more large energy users, who up until recently have been protected by long-term legacy contracts, seek to renegotiate in the coming year.”

The EUAA’s submission includes confidential member data that is representative of the unprecedented increases that major energy users are experiencing. This data shows that over the last 5 years, increases in electricity and gas prices of 80-120% are the norm, with some companies facing increases of over 150%.

“One member has seen a \$15 million price increase for gas in the last two years for the same supply. Another has received a bill this year with a \$20 million increase in electricity costs from the previous contract,” said Mr Richards.

“Unless these issues are addressed we do not believe Australia will regain its comparative advantage in energy, putting the medium to long term survival of many of our members at risk. To be clear, it is the dramatic and sustained increase in energy costs that has been identified as a key threat to their ongoing operations.”

A majority of these industries have until recently been highly competitive at both home and abroad but now find themselves either slipping behind their major competitors or required to absorb sharp increases in energy related costs.

While EUAA and its members do not normally support government intervention in markets, the current situation is so dire that with no other options appearing in the near-term, especially in gas markets, there may be no other option.

Options being increasingly spoken about to address the domestic gas crisis include:

- Capping domestic wholesale gas prices to ensure users do not pay excessive prices,
- interim regulatory approaches that facilitate fair and reasonable access to gas transportation networks and
- the temporary cessation of the export of third-party volumes until such time that gas reserves exceed both domestic and export demand.

“Our clear preference is for buyers and sellers to recognise they need each other and come to a compromise that allows everyone to survive this crisis. Government intervention must be a last resort, but the pressure is mounting.”

In the medium and longer term, changes to the way the electricity and gas markets are managed, removal of gas moratoriums and political stability around climate change and energy policy, could create a more palatable and stable energy market.

EUAA members are part of a critical network of companies spanning manufacturing, food processing, transport, energy, mining and raw material providers that benefit the Australian community. Price rises across this group have flow on effects to all facets of the Australian economy – either in the risk posed by businesses inability to compete with ongoing increased prices or by cost increases to consumers.

“Energy is a critical input to our member company operations and represent a significant part of their cost base. For them, purchasing energy isn’t just about procurement, its about long term business strategy.”

“If we can’t recover Australia’s comparative energy advantage, we are at risk of losing jobs to overseas markets, and increasing prices for food, manufactured goods and other everyday essentials that our community relies upon.”

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