

### Background

Over the last 10 years Australia has given up its comparative advantage in competitively priced, highly reliable energy that has underpinned significant industrial development and employment for many decades.

In assessing the causes of this it is important to highlight the broad range of issues impacting on energy users. All too often the debate and by virtue of this the policy and regulatory response, focuses on just one element when a more holistic response is required.

We have identified five specific areas of concern that have contributed to the current perilous situation being:

1. Energy markets do not appear to be focused on “the long-term interests of consumers”.
2. A dysfunctional political environment that has dramatically increased the risk associated with investment.
3. A fundamental transition of the energy industry and the apparent lag in regulatory and market frameworks.
4. Significant increases in the charges associated with operating transmission and distribution networks.
5. Unprecedented increases in the price of natural gas due to LNG export, supply constraints and lack of competition.

In response to these areas of concern the EUAA have developed the following policy and regulatory positions:

### Energy Market Reform

#### Protecting the long-term interests of consumers.

The National Electricity Objective (NEO) states that:

“the objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability, and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”

The National Gas Objective (NGO) states that:

“the objective of this Law is to promote efficient investment in, and efficient operation and use of, natural gas services for the long term interests of consumers of natural gas with respect to price, quality, safety, reliability and security of supply of natural gas.”

Given the relentless increase in energy costs and in some cases reduction in reliability over the last 10 years it is difficult to reconcile these objectives with reality.

The concept of “the long-term interests of consumers” lacks definition, which in turn allows any stakeholder or group to use it to justify their own commercial position. Therefore the NEO and NGO must be better defined by customers not market participants and must be at the centre of policy and regulatory reform.

#### Limited Merits Review (LMR).

Due to the complexity, cost and time required to participate in the LMR process, consumers have been significantly unrepresented and as a result are now paying \$7 billion more for network infrastructure than they otherwise would

have. Therefore the EUAA supports strengthening the capacity of the AER to make robust decisions, we agree with the concept of a standardised 5-year WACC and agree that streamlining the LMR process would be beneficial.

### Regulatory Investment Test & Interconnectors

There are good reasons to believe that greater interconnection between states will improve energy security and facilitate a quicker reduction in emissions. While we do not disagree with these sentiments, greater interconnection must not be seen as a panacea. While the current RIT-T may need some adjustment it should not be unduly weighted to bring forward more network investment on climate change or energy security grounds.

Before changes to the RIT-T or increased interconnectors are pursued careful consideration of all available energy security options and climate change responses must be undertaken including non-network and customer driven solutions. We urge this to avoid long-life assets being made redundant by emerging technology or rapidly changing consumer preferences.

## **Gas Markets**

### LNG – Gas Crisis

The EUAA has been warning government and the gas industry that if the current gas crisis is not resolved in the near future we are likely to see significant job losses as Australian business seek to offset spiralling costs. Ultimately these costs will also result in increased consumer prices for everyday goods as business seek to remain viable.

We have seen Federal and State Governments intervening in markets to varying degrees, which is not desirable. We would much prefer that the gas industry itself develop a solution to the current crisis that allows Australian business and households to access gas at fair and reasonable prices. However, in the absence of meaningful moves by the industry there may be no other option but for significant government intervention.

In addition to the DGSM (below) options available to government include the temporary cessation of LNG exports accessing third party domestic gas, facilitating significant acceleration of gas exploration and accessing international LNG markets for domestic supply.

### Domestic Gas Security Mechanism (DGSM)

With the DGSM, which is designed to divert export LNG into the domestic gas market, Government has given themselves a bigger stick to ensure the gas industry balances the needs of their international customers and their obligation to supply the domestic market with gas at a fair price. It does not guarantee the Government will intervene in the market nor does it guarantee any price reduction.

### Moratoriums

Moratoriums are “blunt objects” in planning a development environments and their introduction will result in otherwise worthy developments being sidelined as being guilty by association. The EUAA supports the removal of moratoriums provided they are replaced with robust assessment frameworks and a substantial commitment from the gas industry to improve community outreach and involvement.

### Gas Pipeline Arbitration Framework

The EUAA supported conclusions of the ACCC East Coast Gas Review (2016) that a monopoly situation existed in the gas pipeline industry and that the regulatory coverage test should be expanded to include unregulated gas pipelines, especially those that have already recovered their initial cost (i.e. those assets that are 15+ years old).

In the absence of this the EUAA support the proposed gas pipeline arbitration framework provided it facilitates consumer access via a transparent, fair, low cost and time efficient process.

## **Climate Change Policies**

### Price on Carbon

It is in Australia's best interests to be part of a global climate change solution that minimises overall costs of decarbonisation of its economy and takes advantage of new technological and economic opportunities. To ensure the transition to low carbon energy market is both economically and environmentally efficient, investment grade policy is required. Central to this must be a market-based mechanism that puts a price on carbon.

Climate change policies must be clear in their intent, consistent and fair in their application and always seek to minimise the financial impact on consumers while meeting the government's international commitments. Climate change is a global problem that can only be met by a global solution; hence, location of carbon mitigation is irrelevant provided it originates from a highly reliable and reputable source.

### Federal RET

The EUAA position on the Federal Renewable Energy Target (RET) has remained consistent for a number of years being that it supports a 2020 target of 33,000GWh (23.5% by 2020).

The EUAA adopted this position as it establishes a level of stability for investors and industry participants so that the target could be achieved at least cost to consumers.

Given the forecast reductions in the cost of renewable energy, it would appear logical to not extend mandated renewable energy legislation beyond its current time frame as doing so would simply subsidise an industry that does not require it to compete successfully.

If some form of price on carbon were to be introduced, adding cost to existing fossil fuel plant, then renewable energy would find itself in a position of the cheapest form of generation, obviating even further the need for assistance.

### State Based Renewable Energy Targets

Despite bipartisan agreement on the RET it appears that a number of state governments have reignited plans for state based renewable energy targets and appear to be engaging in a form of renewable energy arms race as they compete for investment.

While it is the right of state governments to make policy it believes will be in the best interests of their state, due consideration must be given to the effects these policies will have on the broader market environment.

Therefore the EUAA does not support state based renewable energy target schemes that simply duplicate the federal RET, add costs and create unnecessary complexity.

## **Politics**

### Dysfunctional Political Environment

In the absence of long-term coordinated national energy and climate policy, energy users continue to face unprecedented pressures on the costs and availability of electricity and gas for their operations. Therefore the

EUAA strongly supports a nationally coordinated approach to climate change and energy policy including an agreed set of objectives and overarching policy instruments that it leads to the creation of a stable environment for investors, increased system security and achieving emissions reductions at lowest cost to consumers.

### Government Intervention

Outside of setting broad based public policy that creates competitive markets, the EUAA would prefer that Government intervention be kept to a minimum. Only in extreme circumstances or instances of market failure where the long-term interests of consumers is threatened should Government consider substantive intervention.

In the case of the Federal Government plans to increase the pump hydro capacity of the Snowy Hydro scheme and plans by the Tasmanian government to do similar things with Hydro Tasmania assets, the EUAA is broadly supportive. We believe it will likely lead to increased energy security and lower prices for consumers. Given the assets are already owned by the people the broader market impacts of government intervention (sovereign risk, diminishing investor involvement) are limited.

We differentiate between these announcements and recent South Australian gas announcements where the state government plans to intervene and/or invest in a market that is fully privatised. It is one thing to support an asset already owned by the commonwealth/state and an entirely different proposition for a state government to re-enter a market either by investment or by granting itself powers to intervene.

### Future Role Of COAG

It is critical that regulators are able keep pace with the rapidly changing environment and are provided with flexibility to manage issues as they appear on the horizon, not when they land in front of them.

To help achieve this, the EUAA are open to the concept of providing our regulators with additional power to make decisions provided those decisions are made to serve the long-term interests of consumers. We are also open to the concept of reducing the “day-to-day” role of the COAG Energy Council to reduce the propensity for issues to be politicised and to speed up operational regulatory changes.