

PRIME MINISTER

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ELECTRICITY PRICES: THE FACTS

Too often the cost of electricity is talked about in two completely separate public conversations.

One conversation is about power bills. There's a very concrete discussion going on at the kitchen table, in the school carpark and in the front bar, about this.

Power bills have become the new petrol prices: not just an essential of life that always seems to be going up, but a vital commodity, where what we consume each day, or pay every quarter, seems beyond our control.

The other conversation is about energy markets.

A very complex discussion at Cabinet tables and around board tables – dividend policy, reliability standards, peak demand.

A discussion both informed by, and leading to, the commissioning of a great deal of detailed work on the nature of the problem of higher prices, its causes and possible solutions – from officials, governments, industry and analysis.

While that talk has gone on, prices have gone up – have gone up far and fast.

But now, we are better placed to act.

First, because much of the vital policy work is nearing completion, including the Federal Government's Energy White Paper.

Second, because the round of price determinations starting next year will begin setting prices for years to come.

And thirdly, and importantly, the last Council of Australian Governments meeting convinced me that there is an opportunity to act through COAG before the end of this year.

This begins with a very human problem.

People are paying a lot more – in some states, bills have gone up almost a thousand dollars in just a few years.

It is very clear that working Australians, pensioners, the sick, the aged, people who need the most help, the people Labor Governments are elected to represent. These are the people who are feeling the most pressure.

Meanwhile, some states, like New South Wales and Queensland, are doing very well out of this financially and their revenue from some electricity assets is growing much faster than in the private sector.

So it is also very clear that the States can, and should, do more to cut future price rises.

All this means power price increases need to slow down and there is an opportunity to do that now.

An opportunity finally to get the facts on the table – and then to get something done.

We have a chance to make our clean energy future a smart, affordable energy future.

It's absolutely natural that public discussion of power prices today should include the facts about the price on carbon.

Australia needed to put a price on carbon pollution: to tackle climate change, to seize a clean energy future, using our bountiful access to solar, wind and other clean energy, to not be left behind as the world acted.

When the government priced carbon, we forecast an electricity price impact on consumers of around ten per cent – a forecast which has now become reality.

So yes, Australia did need this ten per cent increase in retail prices. And help with tax cuts, family payments and pension increases.

Achieving a price signal for big businesses to change the generation mix to cut pollution. Funding investments in a clean energy future.

That was in the national interest.

Most Australians pay no more as a result.

But while we were developing and delivering the clean energy future package and putting a price on pollution, something else was happening at the same time.

Carbon price excluded, the average electricity bill went up by at least 48 per cent in the last four years.

And ordinary businesses and households have been entirely uncompensated for these significant cost increases.

This is the difference: Australia needed a carbon price.

Australia did not need price increases of fifty per cent or more for households over the last four years – and Australians can't afford the same kinds of increases over the next four years.

Now, I know there are complex factors driving aspects of these price increases.

The catch-up from years of infrastructure underinvestment.

The growth in peak demand.

Changes which have raised reliability standards and which have come at a high price.

And of course, there's the pragmatic, patchwork design of National Electricity Market itself – a complex mix of co-ordination and competition, public and private ownership, national and state regulation.

But, recognising that complexity, appreciating the conflicting objectives and incentives, and taking into account the long-term factors at play, I want to say very clearly: the last four years' price rises cannot continue.

Fifty per cent price increases in many states over four years – linked to demonstrable inefficiencies in resource allocation in the market.

Or in this state, New South Wales – nearly seventy per cent increases.

With half the extra cost due to increased network charges.

People are paying much more for the so-called “poles and wires” – not to produce electricity but just to move it around the system.

A long term trend of price increases like this cannot be sustained.

Not economically, not socially. No market can sustain this, let alone a market which delivers one of the essentials of life.

It's a huge cost to our economy.

Just last Friday, the Productivity Commission released its advice on the sixteen reform priorities which business leaders, state and federal leaders asked it to review earlier this year.

The Commission found that effective implementation of energy market reforms is the single most likely to deliver gains. If there are large network inefficiencies and excessive regulated prices, then there would be major resource savings and national benefits from lower electricity prices. Even small price reductions would have significant impacts.

That's the Productivity Commission's economic advice.

And it's a real threat to fairness in our society.

As a recent AGL Energy review noted, while wealthier households can cut power costs through more efficient devices and solar panels, the poorest customers are exposed to the full cost of the increases.

As a Labor Prime Minister, I feel very deeply concerned about the plight of pensioners and poorer families who spend a greater proportion of their income on power.

The less disposable income you have, the harder it is to manage large lumpy bills, like power bills.

And buying clean energy appliances – everything from new and more efficient whitegoods to rooftop solar panels – is plainly easier if you earn more.

Solving these kinds of problems in people's real lives is exactly the kind of thing Labor Governments are elected to do.

So I am determined to get a plan in place to prevent unnecessary price rises in future.

It is also important Australians have the facts to explain why this is happening.

At the bottom of all this is this economic reality: the market for supplying energy services in Australia needs to be more efficient.

Take the current handling of peak power demands.

One quarter of all retail electricity costs – more than \$500 a year for a typical family – is spent to meet the costs of peak events that last for less than two days each year in total.

One sixth of our national electricity networks – \$11 billion in infrastructure – caters for peak events that last for barely four days per year.

It's like building a ten lane freeway – but with two lanes that are only used or needed for one long weekend.

It's a very good thing that more Australians can afford air conditioners to cool their families on our hottest days, in fact it's partly a tribute to their own hard work and the prosperity we've built through reform.

It's a very bad thing that the supply side response to this is so deeply costly and inefficient, and it's a clear argument for reform to go further.

Or take the current approach to ensuring secure supply.

Here, there are big forces at play.

Large scale electricity infrastructure established in the post-war period is reaching the end of its useful life and this is a very substantial component of the network.

My challenge, to industry, regulators and state governments, is this: your job now is to ensure that you respond to this with efficient investments.

Investment which gets the balance right between affordability and reliability.

We know that isn't happening today.

New South Wales has already asked the Australian Energy Market Commission to investigate how consumers value this trade-off between reliability and cost.

The review of Queensland's electricity network chaired by Darryl Somerville in 2011 found that smarter reliability requirements could reduce the requirement for capital expenditure by suppliers and ease the price impacts on consumers.

Most compelling of all, the Australian Energy Regulator itself, in the State of the Energy Market Report 2011 released in December last year found the regulatory framework has led to some price increases that are difficult to justify consumers are paying more than necessary for a safe and reliable energy supply.

That's the independent regulator, part of the ACCC, speaking.

At the heart of all this is a simple market design problem: a clear regulatory incentive to overinvest in infrastructure and pass on costs to consumers.

Indeed, in many places around Australia, the State Governments both own lucrative electricity assets and regulate parts of the electricity market.

The comparison between the private and public owned utilities shows the States are doing very well financially out of this arrangement.

Following the recent round of price increases, revenue for network enterprises wholly owned by State Governments is up fifty per cent over the previous five year period.

This was in a period when revenue for the rest of the market players grew less than thirty per cent.

In other words, revenue to the States went up nearly twice as fast as revenue to the private network operators.

This has hit consumers hard.

A typical household in New South Wales is paying over a thousand dollars more for power every year compared to four years ago.

And while due to a number of factors electricity demand is falling overall, families and pensioners are facing higher prices – even for those who are trying to do the right thing and cut their use.

For too long, some State Governments have been increasing their revenue at the expense of the family electricity bill – that has to stop.

Given all those facts and given the regulator itself says the present regulatory framework has led to price increases which are difficult to justify, how can we doubt Australians are paying more than they should for electricity?

So let's act.

First, let's give people more power over what they pay for power.

A typical suburban house today doesn't even have smart meters to measure peak demand, much less to help people control it.

People need and deserve more choice and control.

Already, the Federal Government has taken important steps to do this.

But we want to put even more effective control in the hands of energy users, in the hands of working people, pensioners, owners of small businesses.

The National Energy Customer Framework includes strong protections for Australians who are struggling to pay their electricity bills.

These include requiring fair contracts, better information in bills, and making sure customers know what they are signing up to when they begin a contract.

It also means people who can't pay their bills will get consistent protections across Australia – including the option of payment plans.

And as part of the Customer Framework, the Australian Energy Regulator operates its Energy Made Easy website, providing objective, free comparisons to help customers get the best energy deal for them.

The runaway success of the "Big Electricity Switch" campaign is a great example of the benefits this approach can achieve.

Entrepreneurial spirit, media support and online information have enabled nearly a quarter of a million Australians to be offered discounts as high as 16.5 per cent.

It's a remarkable story – a terrific tribute to One Big Switch and to the Daily Telegraph which has sponsored the campaign.

And it's a remarkable illustration of what supported and informed consumers can achieve.

But today the full benefits of the Customer Framework and the Energy Made Easy website are confined to Tasmania and the ACT, where governments have signed up.

The other States must now get on board.

The States should sign up to these protections for households – and this extra information – *today*.

Particularly New South Wales, where legislation has actually passed the Parliament, but the State Government continues to delay commencing and implementing, for no apparent reason.

Alongside the Customer Framework, the Australian Energy Market Commission's *Power of Choice* review is looking at how the design of the National Electricity Market can be reformed so that consumers have more control.

The Commission is due to make practical recommendations for changes to regulation which can help families, business and industry make informed choices about the way they use electricity and manage their bills.

All of us – Federal and State – must commit to acting on their recommendations as soon as they are made.

And the Federal Government is directly investing in demonstrating smart electricity networks.

In time, these will allow people to have far greater control over their own household electricity use, along with far more information about their own needs.

People should be able to use what they want when they want it and cut out expensive services they don't need.

Picture a smart phone app that means you can load the clothes dryer or a dishwasher before you leave home – and then turn it on when a low cost rate becomes available during the day.

Or consider new technology so home air conditioners can switch themselves between high and low power mode, keeping a house cool while limiting use in high-cost periods of peak demand.

Or in the same way many people use a travel agent or a mortgage broker to get the best bargains, small businesses could hire a clean energy adviser to analyse the data about their business's energy consumption and find a better deal.

In Newcastle, under our Smart Grid Smart City trial, the CSIRO has installed battery storage devices and gas fuel cells, hooking up existing solar systems and linked electric vehicles to real time energy information

In South Australia, ETSA is building on its early success with a more sophisticated suburb-scale trial of the practical technologies, operating arrangements and cost structures.

These technologies – smart, affordable, clean energy technologies – are real and they are operating now.

These are important new ways for consumers to control what they pay for power.

There must also be new pressures on network operators to cut costs.

As I noted earlier there is a great deal of detailed work already in train in energy policy, above all, our White Paper.

But leaders have a responsibility to set the goals and the timelines for that kind of detailed policy work.

So at COAG we asked for two very specific pieces of work to be done.

First, for Energy Ministers “to make sure these reviews focus on achieving efficient future investment which does not result in undue price pressures on consumers and businesses”.

That is, we made the policy goal for all the existing work crystal clear: slow down the price rises.

Second, for the inter-jurisdictional Business Advisory Forum Taskforce which COAG set up in April this year to tell us what additional changes are needed to the design of the electricity market to ensure investment is efficient and to protect the poorest customers.

Today I want to drive this momentum for change further.

I’ve written to the Premiers and Chief Ministers to say that I want all that advice drawn together and on the table for First Ministers to consider – and then I want solutions on the table for COAG to adopt – by the end of the year.

So when COAG meets next – I will be urging the Premiers and Chief Ministers to consider the advice and to act.

The inefficiencies that exist in the current system cannot be ignored.

Even decisions made this year will reap benefits over several years to come – so we must get on with the job now.

I want real decisions this year to guide price determinations beginning next year.

My preference is to work co-operatively with the States through COAG to deliver a better outcome for consumers.

We won’t lightly use the big stick of regulation, of stronger powers for the Energy Regulator and the ACCC.

But it’s a stick we hold and which we’ll use if required.

One way or another, we're going to get this done.

This is the future of the price of electricity in Australia.

More efficient investment.

More empowered consumers.

Real delivery from the States and Territories on our agreed priorities for change.

Much slower price rises over time.

This is the future of Australian energy market reform.

New ideas and new understandings of the possibilities smart technology holds.

Energy services, not just electricity supply.

Clean generation, productive distribution, efficient use.

A rational, efficient price signal to cut carbon pollution.

Remaking the mix of power generation ... and remaking the networks which deliver power services.

More renewable energy, more distributed generation ... better management of demand.

And in turn, this is a smart, affordable, clean energy future.

The bad news is, today, Australians are paying more than they should for electricity, because of the price rises that have come without a dollar of assistance.

The good news is, we can do something about it.