



Energy White Paper 2014 – Issues Paper submission template

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Confidentiality

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Issues for comment are listed against each of the Chapter Headings. In making your submission, you are welcome to make comment against some or all of issues in the fields provided. A field for general comments is provided at the end of the template.

1. The Security of Energy Supplies

The Government seeks comment on:

- ways community expectations can be better understood and reflected in reliability standards;
- the value of developing fuel reserves to meet Australia's international oil security obligations, and augment domestic security;
- ways to increase new gas sources to meet demand and measures to enhance transparency in market conditions; and
- issues relating to the regulation of energy infrastructure.

Please provide any comments on The Security of Energy Supplies below:

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2. Regulatory Reform and Role of Government

The Government seeks comment on:

- priority issues, barriers or gaps within the COAG energy market reform agenda;
- possible approaches and impacts of review of tariff structures including fixed network costs, further time-of-use based electricity tariffs and the use of smart meters;
- possible measures to promote greater price transparency in gas markets; and
- areas where further privatisation of government-owned assets would contribute to more effective regulatory frameworks and better outcomes for consumers.

Please provide any comments on Regulatory Reform and Role of Government below:

On COAG energy market reform agenda

A key area for CoAG which SACOSS would like to see elevated is the alignment of social policy settings and energy market outcomes. CoAG is the appropriate forum for this work given that it spans state and federal government responsibilities and also spans ministerial portfolios in each of these governments.

SACOSS believes that the Power of Choice recommendation relating to social policy is a gap within the COAG energy market reform agenda. As part of The Power of Choice Review, the AEMC proposed a package, which included a recommendation that state governments review their energy concession and rebate schemes so that such schemes are appropriately targeted and could enable a transition to more flexible pricing. The AEMC reported that this was to ensure adequate information and protections are in place for those consumers with limited capacity to respond or change their consumption. The social policy aspect of the Power of Choice package are certainly worth incorporating within the COAG energy

market reform agenda. There is widespread support for a review of energy concession schemes, including from industry and the consumer sector. In particular, the adoption of cap and tailed proportional concessions is viewed as desirable and more able to achieve equity objectives than the majority current flat rate.

A matter of significant concern for SACOSS and other consumer advocates is not so much that a focus on economic efficiency and cost reflective pricing may reduce affordability but that the reform agenda does not ensure that a formal public policy link between market outcomes and 'social and equity issues' is preserved. It is perhaps the breaking of this linkage – or the lack of a formal structure for the linkage - that lies at the heart of affordability, debt and disconnection issues. The Commonwealth's income safety net and state-based concessions are relied upon to ensure vulnerable households can afford the essential services of energy and water but no automatic mechanism exists to ensure that the combination of income support and concessions can continue to preserve the vulnerable household's capacity to pay and stay connected.

On Tariffs

SACOSS believes that it is important to understand the distributional impacts of any options for changes to tariff structures so that consumers can have informed views about the changes being proposed and so that any required social policy changes can be advanced.

On Gas

As per the conclusion in the Eastern Australia Gas Market Study, it is appropriate that "the forward agenda be developed as a priority in consultation with stakeholders". A group such as the National Consumer Roundtable on Energy is a diverse group of 25 consumer representatives who would be an appropriate body to consult on the forward agenda, as it includes a range of welfare, consumer and environmental organisations. This group has already held dedicated day long workshop on gas issues, and a number of the participating organisations have published on the issue and are participating in AEMO forums, including gas.

On Privatisation

We note that the Issues Paper states (p. 17):

"The Government will encourage Standing Council on Energy members to pursue privatisation initiatives".

The South Australian privatisation of electricity assets has been (and continues to be) widely commented on. Without offering an opinion on whether or not consumers are better off with or without privatisation, SACOSS would like to draw attention to the legacy impacts of the way privatisation was handled in South Australia.

The South Australian government sold the Electricity Trust of South Australia (ETSA) businesses to Cheung Kong Infrastructure Holdings Ltd (CKI) and Hongkong Electric Holdings Ltd (HEH) via a tender process concluding in December 1999. When CKI and HEH were awarded the ETSA Utilities (the network business) and ETSA Power (the retail business) tender at A\$3.4 billion, it was agreed between the South Australian Government and CKI/HEH that should ETSA Power be sold within two years after the tender was awarded, any amount generated above A\$150 million is to belong to the South Australian government (3). In January 2000 AGL paid CKI/HEH \$175m for the business and added approximately 734,000 customers to their books (4).

The awarding of the entire franchise to one entity has shaped the small customer market since inception. As the South Australian regulator noted in 2002 (5):

"The South Australian market is unique, and this can be highlighted by the domination of the single retailer (AGL) at commencement of the competitive market in January 2003. In no other market in the UK, NSW or Victoria has there been only one dominant retailer at market commencement with 100% of the new market. This situation calls for unique measures for protecting consumers and encouraging other retailers to join AGL in supplying the domestic and small business market. The Government's approach is unique and squarely puts the responsibility back with the retail industry to demonstrate the prices they seek to apply in South Australia are justified."

Over a decade later, AGL Energy continues to hold contracts with over 50% of small customers in South Australia (6). Through needing to hedge such large demand, AGL also now owns significant generation assets in South Australia including the state's largest, Torrens Island Power Station.

The end result of the way privatisation was handled is a dominant player in a relatively small market. SACOSS would argue that this is an important challenge for the development of competition in SA, especially in a context where Origin Energy has a similarly dominant position in the South Australian gas market.

Supporting this view, the Case Study prepared by KPMG for the AEMC to celebrate 15 years of the National Electricity Market (NEM) found that (7):
“Getting industry structures right was key for effective competition” and that “... there is an explicit trade-off between the benefits of a competitive industry structure and maximising sales proceeds from privatisation. The gains for the economy of a competitive industry structure needs to take precedence over the fiscal impacts of privatisation. To do otherwise poses a risk to the benefits of the reform being sustained.”

SACOSS is of the view that is particularly relevant not just to the reforms planned for the Tasmanian electricity industry (8), but to the way that competition is judged in the South Australian market.

References:

1. Power of Choice final report 2012, s6.3.2 p. 165.
2. Ibid, p. 168.
3. CKI Media release January 2000 at www.cki.com.hk/english/whatsNew/2000/20000114.htm.
4. ASX 2000, 'Preliminary Final Report & Press Release Part A' at www.asx.com.au/asx/statistics/displayAnnouncement.do?display=text&issuerId=40&announcementId=199820.
5. South Australian Independent Industry Regulator Reviewing and Approving Electricity Retail Prices in a Competitive Market, Initial Thoughts April 2002, p. 29, www.escosa.sa.gov.au/library/020408-Review_ApprRetailPrices.pdf.
6. ESCOSA, AER reports and AEMO Switching data indicate the AGL and subsidiary Powerdirect continued to hold around 55% of small customer contracts at the end of 2013 – 11 years after the commencement of full retail contestability in the SA electricity market.
7. AEMC 2013, 15 Years of the National Electricity Market, www.aemc.gov.au/news/whats-new/15-years-of-the-national-electricity-market-the-book.html.
8. Tasmanian Government, 'The Government continues to support the future sale of Aurora's retail customer base and will proceed when market conditions improve', <http://www.electricity.tas.gov.au/>, viewed 31 January 2014.

3. Growth and Investment

The Government seeks comment on:

- commercial or market initiatives that could enhance growth and investment in the energy and resources sectors;
- areas where approvals processes could be further streamlined while maintaining proper environmental and social safeguards;
- further ways that regulatory burdens could be reduced while maintaining appropriate levels of disclosure and transparency in energy markets; and
- the impacts of variable land access policy and ways the community could be better informed and engaged on development in the energy sector.

Please provide any comments on Growth and Investment below:

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4. Trade and International Relations

The Government seeks comment on:

- how to grow the export of value-added energy products and services;
- ways to remove unnecessary barriers to continued foreign investment in Australia's energy sector;
- ways to strengthen support for access to export markets; and
- ways to support business to maximise export opportunities for Australia's energy commodities, products, technologies and services, including the value of Australia's participation in the variety of international forums.

Please provide any comments on Trade and International Relations below:

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5. Workforce Productivity

The Government seeks comment on:

- the nature of any current skills shortages being experienced and how these could be addressed by and with industry;
- the capacity of industry and education sector-led programs to meet long-term training and skills development needs of the energy and resources sectors; and
- specific long-term training and skills development needs for alternative transport fuel, renewable energy, energy management and other clean energy industries.

Please provide any comments on Workforce Productivity below:

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6. Driving Energy Productivity

The Government seeks comment on:

- the current suite of energy efficiency measures, ways these could be enhanced to provide greater energy efficiency or possible new measures that would enhance energy productivity;
- the use of demand-side participation measures to encourage energy productivity and reduce peak energy use; and
- measures to increase energy use efficiency in the transport sector.

Please provide any comments on Driving Energy Productivity below:

Energy Productivity

SACOSS is well aware that both electricity prices in South Australia are closely tied to the costs of meeting electricity demand during heat waves. In relation to the 'Energy Productivity' part of the issues paper (pp. 31-33), SACOSS agrees that 'peak demand' must be a key focus of energy policy.

SACOSS is of the view that energy efficiency and demand management programs (including an effective and efficient Demand Response mechanism in the wholesale market) should have peak demand as a priority focus alongside the distributional impacts of energy costs.

As an example in this regard, SACOSS is a strong supporter of initiatives such as the Uniting Communities 'Beat the Heat!' program funded under the Government's Low Income Energy Efficiency Program (LIEEP) that seeks to merge energy efficiency with resilience during heat waves for low-income renters (1).

SACOSS is concerned that the leading policy response is pricing reform to send stronger price signals at these times of coincident peak demand. In our view, such reforms must be preceded by accompanying efforts to ensure households – particularly those vulnerable to extreme heat such the elderly, children and the disabled – are able to contain their energy costs without compromising their health.

Reference:

1. Australian Government, <http://ee.ret.gov.au/grants-reporting/low-income-energy-efficiency-program/uniting-communities>.

7. Alternative and Emerging Energy Sources and Technology

The Government seeks comment on:

- ways to encourage a lower emissions energy supply that avoids market distortion or causes increased energy prices;
- the need to review existing network tariff structures in the face of rapidly growing deployment of grid-backed-up distributed energy systems, to ensure proper distribution of costs;
- additional cost-effective means, beyond current mandatory targets and grants, to encourage further development of renewable and other alternative energy sources and their effective integration within the wider energy market;
- how the uptake of high efficiency low emissions intensity electricity generation can be progressed;
- any barriers to increased uptake of LPG in private and commercial vehicles and CNG and LNG in the heavy vehicle fleet; and
- any barriers to the increased uptake of electric vehicles and advanced biofuels.

Please provide any comments on Alternative and Emerging Energy Sources and Technology below:

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General Comments

Any further comments?

SACOSS is cognisant of the issues related to gas market development and the potential impacts on South Australia through local gas prices and on electricity supplies through our reliance on gas as a fuel for electricity generation. This is discussed in the Issues Paper. SACOSS is conscious that wholesale gas prices are about to rise significantly, the question though is by how much. The lack of gas market transparency makes it difficult to rely on competition and efficiency to minimise the impact on consumers.