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## SUBMISSION TO GREEN PAPER FOR AN ENERGY WHITE PAPER

Thank you for the opportunity to comment on the Australian Government's Green Paper for an Energy White Paper.

IPART is the economic regulator of retail gas prices for small customers in NSW that have not entered into a market contract. We also monitor competition in the retail electricity market in NSW. We are well placed to comment on energy policies and the implications they have for the cost of providing energy to end-use consumers.

The Green Paper invites submissions on possible approaches for achieving stated policy goals. In this regard we would like to comment on:

### ▼ Gas prices

- We agree that competition will provide better price and service offerings for customers than regulation. We support deregulation of retail energy markets where competition is effective. We consider that retail gas prices in NSW can be deregulated.
- We support the view that a domestic reservation policy will result in costs to the Australian economy.

### ▼ Electricity prices

- We support cost reflective pricing for electricity networks including basing prices on the long run marginal cost of supply. The Australian Energy Market Commission's recent draft determination on network pricing is an important step towards more cost reflective network prices.
- We support the installation of time-of-use/smart meters to enable more flexible cost reflective tariffs. However, this should be at the initiation of a customer or its retailer rather than a mandated rollout.
- We consider that in developing the Emissions Reduction Fund and other energy policy under the White Paper, the Government should ensure that programs are complementary and that scheme costs are actively monitored to ensure that they are efficient, effective and delivering value for money.

## **Encouraging competition by removing retail gas price regulation**

We support the view in the Green Paper that competition and deregulation improve productivity. We assessed the effectiveness of competition in the NSW retail energy markets as part of our 2013 electricity and gas pricing reviews. We found that competition was protecting customers, as well as offering more choices and better price and service outcomes.<sup>1</sup> The NSW Government fully deregulated NSW retail electricity prices from 1 July 2014. We also recommend that the NSW retail gas market be deregulated. Indeed around 75% of small customers in NSW have already moved from regulated gas prices to market contracts.<sup>2</sup> We consider that competition in this market is now effective enough to provide sufficient protection to customers, as well as offering more choice and better price and service outcomes.

The gas market is changing. Gas reserves previously contracted to NSW are depleting or being directed to Gladstone for export. The ability to export liquid natural gas is driving a fundamental change in eastern Australia's wholesale gas market. Going forward NSW is likely to have to compete with offshore demand and pay export prices, and gas prices will be influenced by what is happening in world markets. Retail price regulation cannot protect customers from price increases driven by market factors, nor can it protect vulnerable households that may be experiencing affordability problems.

Rather, it is important to ensure that any specific groups of customers that require financial assistance are specifically considered and targeted responses are developed.

## **Domestic reservation policies impose costs on society**

We agree with the Green Paper that a domestic reservation policy imposes costs on the economy. Under a domestic reservation policy, a proportion of gas production is reserved for domestic use, and sold at prices below those prevailing on the export market. Imposing a requirement that producers must reserve a fixed volume or proportion of gas for say domestic manufacturing is a form of industry protection. The economic benefit of the gas resources is shifted from producers to particular industry consumers. This redistribution would be achieved at a net cost to the Australian economy and is inefficient.

A further problem with a domestic gas reservation policy is that government overrides the market and sets the volume of supply. There is a risk that government could force too much gas into the domestic market. Suppliers would have less flexibility to adjust how much gas they supply and this can discourage producers from further investing in gas production.

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<sup>1</sup> IPART, *Review of regulated retail prices and charges for gas from 1 July 2013 to 30 June 2016 – Final Report*, June 2013, p 6.

<sup>2</sup> IPART, *Changes in regulated retail gas prices from 1 July 2014 – Final Report*, June 2014, p 1.

## **Moving towards more cost reflective tariff structures**

We support cost reflective pricing for electricity networks. Current network tariff structures typically provide little opportunity for consumers to lower their costs by altering their electricity consumption and also results in cross-subsidisation among consumers. Cost reflective tariffs provide an incentive to consumers to change their energy use from high cost peak demand periods to lower cost periods. Where consumers respond to these price signals they can benefit from lower energy bills and reduce cross-subsidisation. Over the longer term, more efficient use of the network results in cost savings that benefit all consumers.

We consider that the AEMC's recent draft determination, proposing that network prices be based on an estimate of the long run marginal cost (LRMC) of supply is an important step towards more cost reflective prices. The introduction of LRMC pricing for network services would provide an incentive for the adoption of time-of-use meters, in particular for small customers that currently have accumulation meters (discussed below).

## **Pursuing cost effective opportunities to deploy time-of-use/smart meters**

We support the take-up of time-of-use and/or smart meters through a competitive market and at the discretion of the customer or its retailer. Many small customers in NSW have accumulation meters which do not support flexible pricing including time-varying prices. Therefore, the availability of more advanced metering technology goes hand in hand with the move towards more cost-reflective pricing.

Customer initiated uptake of time-of-use meters (with the customer potentially paying for the installation of the meter) could target those customers with the greatest willingness or ability to shift their demand. It is likely that individual customers will be in a better position to gauge their ability to respond to price signals than government. Retailers may also be in a position to manage the demand of their overall customer base through programs targeted at individual customers or groups of customers.

Importantly, improving the productivity of the electricity sector requires the benefits from deploying time-of-use and/or smart meters to exceed the costs.

## **Ensuring the complementarity and cost effectiveness of green energy schemes**

We support views in the Green Paper to rationalise emissions reductions activities to reduce costs for consumers. We consider that in developing the Emissions Reduction Fund (ERF) and other energy policy under the White Paper, the Government should ensure that programs are complementary and that scheme costs are actively monitored to ensure that they are efficient, effective and delivering value for money.

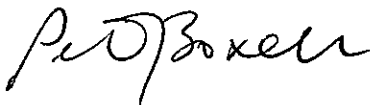
The ERF is the central component of the Australian Government's Direct Action Plan and aims to reduce emissions at lowest cost, and contribute towards Australia's 2020 emissions reduction target of five per cent below 2000 levels by 2020. The ERF will operate alongside other emissions reduction programs and energy efficiency schemes. Proponents will need to choose whether to seek support for their project through the ERF or through another program (so that emissions reduction activities are not paid for twice).

In our view, green schemes and emissions reduction programs should be complementary to the ERF. In 2009, IPART assessed the complementarity of NSW climate change mitigation programs to the Carbon Pollution Reduction Scheme. Based on this assessment we made recommendations on whether programs should be retained, redesigned, or terminated.<sup>3</sup>

As energy efficiency is an eligible activity under the ERF, the continued operation of state-based energy efficiency schemes might not be complementary. In progressing to a national scheme, clear transition arrangements need to be in place to maintain certainty for businesses investing in state-based energy efficiency schemes.

Please contact John Smith on (02) 9113 7742 if you have any queries in relation to this submission.

Yours sincerely



Peter J. Boxall AO  
Chairman

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<sup>3</sup> IPART, *Final Report – Review of NSW Climate Change Mitigation Measures*, July 2009.