

12 August 2018

Energy Security Board

By email: info@esb.org.au

NATIONAL ELECTRICITY LAW AMENDMENTS TO REDUCE PRICES AND SAFEGUARD RELIABILITY

Dear Kerry,

Energy Consumers Australia appreciates the opportunity to comment on the National Electricity Law amendments to establish a mechanism to manage reliability and emissions in a transforming market.

Energy Consumers Australia is the national voice for residential and small business energy consumers. We were established by the Council of Australian Governments (the Energy Council) to promote the long-term interests of households and small businesses with respect to price, quality, reliability, safety and security of supply.

Guided by our mandate and what consumers are telling us, our focus through this process has been to contribute to the development of a mechanism to improve affordability. To reduce the cost of electricity and to take the pressure of households and small businesses living with electricity prices that the Australian Competition and Consumer Commission (ACCC) found have increased by (on average) 60 per cent in the last ten years, far outpacing CPI and wages growth.¹

We support the mechanism outlined in the Final Detailed Design paper because it is market-based and because the analysis indicated that the greater certainty and competition in the wholesale market would increase supply and as a result, reduce electricity prices by \$150 per year over the next decade for the average household. Noting the Commonwealth's position on the emissions target, we are urging the Energy Council and all stakeholders to focus on this price outcome and work together to find a way forward.

Our strong view that the ESB and the Energy Council should continue to progress appropriate legislative amendments for both the reliability and emissions elements of the mechanism. A single emissions mechanism, drawing on the extensive design work already undertaken by the Energy Security Board, and embedded in NEM governance arrangements built around the strong *long-term interests of consumers* objective, is likely to be the most certain and least cost method of implementing state and territory determined emissions reduction objectives.

We understand that the emissions intensity target set out in Division 1 of the draft Bill, could instead be set by direct reference to the Australia's Paris commitment, or alternatively, by reference to a target determined by each jurisdiction. We encourage the ESB to explore these options. Greater certainty around the market framework and the rules for emissions,

¹ ACCC, *Retail Electricity Pricing Inquiry, Preliminary Report*, page 13.



will improve the investment environment and bring on the new supply needed to fill the gaps left by plant closures over the next 20 years.

We are broadly comfortable with the draft legislation amendments for the reliability elements of the mechanism. Our interest here is to ensure the design incentivises efficient investment in the dispatchable energy we need to keep the power on, including demand response, while managing the risk of overinvestment. There must be no opportunity for any single part of the system to de-risk its own position at the expense of consumers through added costs. The accountability measures built into the draft Bill strike an appropriate balance between discretion and prescription, noting in particular our support for the decision to retain the 'T-3' independent trigger point to mitigate the risk that the mechanism is not brought to bear too early, causing liable entities to make unnecessary investments in capacity.

We do however make the following suggestions to enhance the operation of the reliability mechanism:

- new paragraphs be inserted in sections 14ZD and 14ZF requiring AEMO to consult with consumer representatives, and other stakeholders in relation to the forecasting functions performed under those sections; and
- that section 14ZK(2) be amended to clarify that the Australian Energy Regulator (AER) may only dispense with the requirement to undertake consultation in exceptional and emergency circumstances.

More broadly, it is important to note that we see this mechanism as an important part of an integrated package of measures, incorporating the ACCC's *Retail Electricity Price Inquiry* recommendations, to protect consumers in relation to both price and reliability. It is critical that the central and consistent message of the major reviews that have been undertaken in the last couple of years – that the market is not working for consumers and that a major reset is needed – remains in sight as we move into an implementation phase. The ACCC's ongoing electricity market monitoring outlined in the 20 August 2018 reference from the Treasurer will play an important role in tracking the sector's progress.

I would be pleased to discuss these matters further, and please do not hesitate to contact Chris Alexander, Director of Advocacy and Communications 08 9220 5500 or chris.alexander@energyconsumersaustralia.com.au.

Yours sincerely,

Signed for and on behalf of
Energy Consumers Australia