

May 4, 2018

EUAA 2018 National Conference, Future Thinking: Speech notes

This speech was delivered by Rosemary Sinclair at the EUAA 2018 National Conference themed around 'Future Thinking' on 2 May 2018.

Thank you Brian and the EUAA for the opportunity to join the discussion today.

And can I also recognise Minister Frydenberg for his commitment to consumer outcomes and affordability.

We are working closely with the EUAA on a range of critical issues – from implementing the Gas Market Reform package, to designing the new process for setting network rates of return.

Issues that go to big line items on bills and the heart of the affordability challenges consumers large and small are facing.

And issues that Energy Consumers Australia cannot tackle alone – particularly without the EUAA's deep, very practical experience in competitive and regulated markets... experience working with its members trying to secure access to infrastructure, trying to contract for energy on reasonable terms, weighing up the pros and cons of investing in an uncertain environment.

THINKING... HARDER

I must say I was thrilled to see the emphasis in this years conference on the simple, but nevertheless powerful word 'thinking'...

I'm reminded of the (apocryphal) quote by the great New Zealand physicist Ernest Rutherford, speaking to his laboratory team "gentlemen, we've run out of money, it's time to start thinking".

Rutherford could just as easily have been describing the challenges of transforming an energy system and a market in a way that is highly sensitive to affordability and international competitiveness.

Because, and this is the central point I want to make today, the days where 'the consumer just pays' to solve problems in the energy market are over.

Because as my energy company friends have heard me say, we simply cannot gold-plate our way through the transformation.

We need people to think harder before we transfer that dollar from the consumers pocket to the energy companies' pocket!

We need to focus on energy as an essential service supporting comfortable homes and competitive businesses.

This is what I hear when I listen to the Minister's National Press Club Address and in his keynote today.

THINKING... ABOUT HOW WE GOT TO NOW



As households and small businesses are telling us, as I'm sure are EUAA members are as well, the energy system has not meeting their expectations in fundamental ways.

1. Networks – we see overinvestment driven by demand forecast and reliability measures which will take years to rein in ... some figures I have seen show network costs in some cases rising due to RABxWACC beyond 2040 and overwhelming good recent reductions in OPEX and capex spend;
2. Wholesale energy markets – recently delivering double digit price rises to consumers;
3. ACCC reporting that environmental schemes adding to the bill; and
4. Retail market costs not reflecting expected outcomes for consumers, from an effectively competitive market.

What we've seen in the energy market in the last ten years is a growing distance between the prices and services on the one hand, and consumer outcomes and expectations on the other, until the System Black and a new round of price hikes in the last 18 months, this distance – this gap – has finally become too great to be sustained or tolerated.

The rubber band has stretched, and now has finally snapped – as it also has in a stunning way in the Financial Services Sector.

And as governments and regulators will no doubt do in relation to banking, they have responded to deep community dissatisfaction and a profound loss of trust in energy...

...the East Coast Gas Market reviews, Thwaites, Finkel, the abolition of Limited Merits Review, the Prime Minister's wholesale gas market intervention, the Prime Ministers retail market intervention and the subsequent rule changes that John has before him, the ACCC Retail Inquiry, and of course the National Energy Guarantee...

NEW THINKING... ABOUT THE NEXT THING

The big question as we sit here today is what does this policy and regulatory response add up to? How can it, how will it, shape the transformation of the energy system and the market?

When I look at this body of work – which does traverse familiar themes about transformation, competition, incentives and good governance – I see **new thinking** and **new expectations** that will ripple out through policy and regulation, and in time, reshape behaviour and outcomes.

Not a tune-up. Not tinkering. Not BAU.

For example:

There is a new and strong emphasis on embedding **transparency** around access and pricing in market design...a major shift away from an ambivalence about transferring pricing and opaque bilateral contracting.

- By creating new, more open markets for gas and gas pipeline capacity...
- By proposing to require that vertically integrated gentailers trade wholesale electricity through a central exchange un the National Energy Guarantee...



- There is a new and strong emphasis on energy service providers being **accountable** for consumer outcomes a rejection of the cavalier reliance on caveat emptor in energy.
- New (proposed) rules that require retailers to notify households and small businesses when their discounts expire, by banning unfair discounting, by making it easier to compare deals.

And there is of course, a strong overarching **commitment to affordability**.

The challenge from here is to nurture this new thinking and to translate it into lower prices and better service for users and consumers as quickly as possible... because there is significant inertia in the system that will all too easily take us from the principle to the long-grass...

Decisions about reliability and emissions must be done within an affordability constraint. Affordability can't be merely aspirational it must be an actual outcome of 'The System'.

It must be an explicit criterion in our decision-making up and down the supply-chain. And consumers must see evidence of this on the bills...

This means a new risk-management ethic within the sector... thinking before building, better forecasting, partnering with consumers to manage the system on those hot days...

Thank you.

ENDS