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Energy Division – Underwriting New Generation Investment Submission  
Department of Environment and Energy  
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## **Underwriting New Generation Investment**

Energy Consumers Australia appreciates the opportunity to comment on the Department of the Environment and Energy (Department) Public Consultation Paper on *Underwriting New Generation Investment* of October 2018 (Paper).

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) in 2015 to promote the long-term interests of households and small businesses with respect to price, quality, reliability, safety and security of supply.

In this submission we comment on the Government's proposal for underwriting new generation investments. We see this consultation as a part of a broader response to the Australian Competition and Consumer Commission (ACCC) Retail Electricity Pricing Inquiry recommendations, and the ongoing implementation of the Finkel Blueprint which includes the development of an Integrated System Plan (ISP). A strong, coordinated process is needed to implement these reforms, reset the market, and deliver the significant bill savings that are promised for consumers.

Our consideration of the matters raised in the Paper is informed by Energy Consumers Australia's strategic framework for the transformation of the energy system and market:

1. *Affordability* must be a constraint on investment and decisions about energy – an explicit criterion in decision making up and down the supply chain.
2. Energy services must be built around *individuals* to reflect their own unique circumstances, enabling people to easily manage their own use and costs – whether that is consumers who are innovating and engaged; the majority of consumers who are focused on affordability and costs; and consumers with vulnerabilities.
3. Investment in the power system – networks, generation and retail – must be *optimised* and based on consumers' demands that not a dollar more is spent than is necessary and not one day earlier than needed

### **Settle the wholesale market to reduce prices**

It is not an overstatement to say that the next couple of years are not only critical for our energy future, but also critical for the health and success of our economy and the Nation. High electricity and gas prices, and an uncertain and at times disorderly process of transition in the energy market, has stretched household budgets and undermined the competitiveness of our businesses. At the same time, the community's trust and confidence in the market has been shaken and a perception of risk has slowed the investment in new supply needed to bring prices down.



It is telling that after ten-years of price increases, it appears that most households and small businesses have exhausted the changes they are able to make to reduce their use and keep their bills under control. The latest Energy Consumer Sentiment Survey saw drops in consumers' confidence that they can effectively manage their energy use and costs. Only 58% are confident in their ability to manage their use (down 11%), while half of consumers say they have enough easily understood information available to help them make good decisions about their energy supply (50% down 7%) or the right tools (46%, down 7%).<sup>1</sup>

Wholesale energy prices have made a substantial contribution to the higher prices households and small businesses are facing. The ACCC found that, on average across the National Electricity Market (NEM), wholesale prices have contributed close to \$100 to the average residential bill, accounting for 22 per cent in the overall increase in bills in the last ten years. Settling the wholesale market and attracting the investment in capacity needed to reduce prices is crucial if we are to bring bills back down to more sustainable levels.

At the same time though, care needs to be taken to ensure that policies to sure-up the reliability of the system, and to provide new firm electricity resources (generation or demand-side), does not lead to overinvestment in generation, with unnecessary costs being passed through to consumers. This need to set affordability as a constraint is also pertinent in the discussions about the electricity transmission and interconnection projects in the ISP should be progressed.

We note in this context that the Government is proposing to fund the Program itself, rather than seek to pass the costs through to consumers, which is something that the Finkel Report considered (Recommendation 5.2) may be necessary to overcome coordination challenges in a transforming market, or to support strategic investments. The Finkel Report recommended that a rigorous framework be developed to guide government intervention in the market and we are pleased to see in the Paper, a commitment to clear eligibility and selection criteria. Strong governance and a competitive process that ensures the best projects are funded will be critical for the success of this Program and good outcomes for consumers.

### **Finncorn Advice**

Energy Consumers Australia commissioned Finncorn to provide advice on how the Program can be designed to maximise the benefits for consumers. We are currently considering this advice, however given the tight timeframe for the consultation process for the Program, we include it at Attachment A to inform the Department's considerations rather than to outline a final Energy Consumers Australia policy position. Our intention is to provide a considered, technical view of the issues, that can serve as the basis for our engagement with the Department and stakeholders in the next phase of the process.

The advice (in summary) emphasises the need for clarity around the objective of the proposal, and for careful consideration to be given to how it sits alongside other wholesale market reforms, particularly ACCC recommendations 1,2 and 3 that are designed to address market concentration and gaming, as well as the proposed Retailer Reliability Obligation.

The advice also suggests nine principles which can inform the design of the policy to deliver investment at the minimum required level of support under a competitive process, and the most

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<sup>1</sup> <https://energyconsumersaustralia.com.au/wp-content/uploads/Rebuilding-consumer-confidence-critical-to-managing-affordability.pdf>



appropriate resources for the wider health of the system and the long-term interests of consumers. These principles include:

1. The underwriting should not be by way of a payment per MWh – electricity pricing may look very different in future. It should be specified as a revenue amount.
2. The ACCC suggested that projects may need support in later years, but this may not necessarily be the case. The mechanism should be neutral on this point, and projects should be compared on revenue support required on an NPV basis (discounted at Commonwealth bond rate).
3. The best way to ensure the support is efficient and represents good value for money is to ensure funding is only available via a competitive process.
4. Only investment for which there is an identified need should be supported. A suitable independent body should be required to identify an amount of extra market capacity with certain reliability characteristics that should be supported. A single (closed bid) auction for the revenue support required to deliver that capacity should be conducted.

The advice also outlines an alternative funding approach based on ‘energy infrastructure bonds’ that the Department may wish to consider.

If you would like to discuss this submission further, please contact David Havyatt, Senior Economist via email at [david.havyatt@energyconsumersaustralia.com.au](mailto:david.havyatt@energyconsumersaustralia.com.au) or on 02 9220 5508. This submission does not contain any confidential information and can be placed on the Department’s website.

Yours sincerely,

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