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31 January 2020

Dear Minister Somyurek,

RE: Local Government Rating System Review

The Australian Energy Council (the "**Energy Council**") is writing in response to issues that arose during the Local Government Rating System Review in late 2019. The Energy Council apologises for not submitting during the official consultation period as there was a lack of energy industry awareness of the Review.

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

Electricity generation is fundamental service which underpins the operations of industry and commerce, and the lives of consumers. Generation is an extremely capital-intensive activity – a characteristic of all generation technologies: coal, gas, hydro, wind and solar. Whilst there is considerable local activity during the brief construction phases, for the following decades generation plants make negligible demands on local government services compared to the capital at stake. Hence the "Capital Improved Value" approach for calculating rates, that is intended for low-capital/high-activity service-type businesses, is entirely inappropriate for generation plants. This circumstance has always been recognised by the existing long-established "Payment in Lieu of Rates" rating arrangements, and the Energy Council is alarmed by some submissions proposing otherwise. The Energy Council suggests that any increased costs from changing the basis upon which rates are charged would be unfair, and may deter new investment in the sector, or expedite closure, with an accompanying increase in customers' costs.

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AUSTRALIAN ENERGY COUNCIL

Discussion

Use of Council Services

Generation plant, whether conventional (such as coal-fired generation) or renewable (such as wind farms) is highly capital intensive. The CSIRO's *Draft GenCost 2019-20* reports the following current generation technology capital costs:[1]

Technology	2019 Capital Costs
Brown Coal	$5,115/kW
Gas (combined cycle)	$1,696/kW
Gas (peak)	$1,277/kW
Large scale solar PV	$1,463/kW
Wind	$1,908/kW

These figures indicate that a substantive (but not enormous) size new plant of 500MW could have a capital value between $1b and $2.5b.

In contrast, the demands of such plants on council infrastructure is very limited. There is increased use of roads during the construction phase, but this reduces markedly once the plant is operational. In addition, regulation and approval of generation activities are handled at the state government level, thus local planning services are not called upon.

Furthermore, a condition of many infrastructure projects is the obligation to upgrade the servicing roads at the project proponent's cost, and the energy industry has proven itself to be a good corporate citizen in that regard, as well as making direct contributions to the social fabric of nearby towns, for example by sponsoring local community organisations and sporting clubs.

Historical Practice

The provisions of Section 94 (Rateability of certain property) of the *Electricity Industry Act 2000* have been in force since January 2001, following the privatisation of the industry. The provisions continued the longstanding principle that electricity is a matter of state-wide interest and should not be seen as an activity that should contribute to local government rates in proportion to its capital. This principle applies throughout energy supply and networks. The industry is instead largely taxed at the state government level, paying coal extraction royalties and electricity transmission easement taxes. The Energy Council suggests that, despite privatisation, the principle of electricity underpinning the state economy continues to this day, and the existing arrangements should be continued.

[1] Graham, P., Hayward, J., Foster, J. and Havas, L., *GenCost 2019-20: Preliminary Results for Stakeholder Review*, December 2019, p.35, Table B.1 (extract)

Cost to Consumers
The main issue with changing the basis for levying rates is the increased cost to consumers. Determining the capital improved value for a unique, capital-intensive industry is bound to be inaccurate, and should rates be charged using the hypothetical so derived, the cost to generators will substantially increase. This will not only impose further cost pressures on existing generators, potentially contributing to a disorderly closure of older plant, but will also make Victoria less attractive for generation investment. All of these factors will have impacts on supply reliability and wholesale electricity market prices. On this basis, the Energy Council opposes any change to existing arrangements which may increase costs for consumers.

Conclusion

The Energy Council strongly opposes any change to the rating system for generation plant. Doing so would be inequitable given the broader societal benefit of power generation, and would increase costs for consumers – a result at odds with the Victorian Government's objective to reduce prices.

Any questions about this submission should be addressed to Duncan MacKinnon (Wholesale Policy Manager), by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

Nick Leys
Acting Chief Executive Officer
Australian Energy Council