

Mr Peter Achterstraat AM
Commissioner
Office of the NSW Productivity Commissioner
Department of Treasury
52 Martin PI
SYDNEY NSW 2000

27th November 2019

Submitted online to: <http://productivity.nsw.gov.au/>

Dear Mr Achterstraat,

Kickstarting the Productivity Conversation

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the NSW Productivity Commission’s *Kickstarting the Productivity Conversation Discussion Paper*.

The Energy Council is the industry body representing 22 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.

Discussion

Energy is a fundamental service which underpins the state economy. The energy sector is undergoing a major transition as conventional electricity sources are replaced or supplemented by variable renewable energy, and natural gas is increasingly used for gas-fired generation, as well as being exported.

As the Discussion Paper has noted,¹ this transition has seen retail electricity prices rise over the past decade, but the Energy Council notes that despite the rise, electricity only contributes 2.54% to the weighting of the Consumer Price Index.² Consumers spend more on alcohol, more on tobacco, more on takeaway food, and more on holiday travel & accommodation.

Nevertheless the Energy Council acknowledges these rises are material to many users and it is the change in prices which is important to ameliorate. To this end, providing a stable investment environment is essential in achieving that aim.

Providing stability can be accomplished by not changing the policy environment under which companies invest and, when changes are necessary, telegraphing them well in advance of them occurring. A stable policy environment also does not “play favourites” by subsidising particular technologies or market segments, or, if it does so to foster a specific outcome, it does not persist once the outcome has been achieved, and the subsidy is no longer required. A prime example is the solar incentives scheme, which has enjoyed remarkable success, to the extent that in its Retail Electricity Pricing Inquiry Final Report, the Australian Competition & Consumer Commission recommended that “[t]he small-scale renewable energy scheme should be wound down and abolished by 2021”.³

The framework for investment also needs to be considered in context of the broader national market. With companies increasingly operating across the National Electricity Market (“**NEM**”), and across Australia as well,

¹ p.62

² Australian Bureau of Statistics, 6470.0.55.002 – *Information Paper: Introduction of the Consumer Price Index Weight Update 2018*, 12th December 2018, Appendix 1

³ Australian Competition & Consumer Commission, *Restoring electricity affordability and Australia’s competitive advantage: Retail Electricity Pricing Inquiry – Final Report*, June 2018, Recommendation 24, p.xxi

it is important for regulatory and policy frameworks to be aligned, to reduce the compliance burden, increase investment assessment opportunity efficiencies, and allow for the free flow of capital across the country.

Thus, state initiatives such as individual renewable energy targets, for example those in place in Victoria and Queensland, hamper efficient development, cause broader implications for NEM generator siting and transmission development, and cause disquiet amongst investors seeking policy stability. In addition, it is important to consider the whole-of-system effects for initiatives such as these, which can result in geographical supply imbalances.

The Discussion Paper suggests solar and wind “are increasingly cost-competitive with the primarily coal-based generation mix in the NEM”.⁴ Unfortunately such comparisons are inappropriate since they compare global variable renewable energy costs with Australian wholesale market costs, and they make no allowance for the cost of additional capacity necessary to “firm” the variable renewable energy and make it directly comparable with the NSW-based NEM generation. The Energy Council therefore submits that reports such as the Australian Renewable Energy Agency-funded “Comparison of Dispatchable Renewable Electricity Options” be used as a starting point for the Commission to consider whether a particular generation mix is economically appropriate.⁵

Reliability

The Discussion Paper seeks solutions “to cost-effectively improve reliability”. From a wholesale market perspective, the reliability standard of 0.002% of unserved energy has not been breached in NSW since the establishment of the NEM in 1998, therefore the need to improve generation reliability is not proven, and the Energy Council believes there is no need to establish any measures.

However generation reliability is a very small contributor to overall system reliability, as shown in the following chart from the Australian Energy Market Commission (“AEMC”).

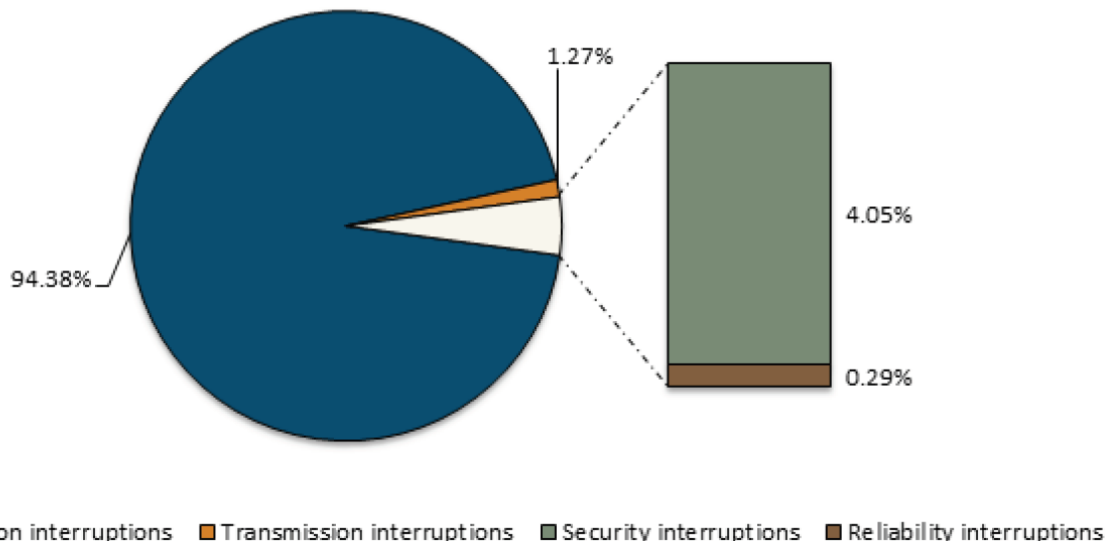


Figure 1: Sources of Supply Interruptions in the NEM from 2007/08 to 2017/18
Source: Australian Energy Market Commission⁶

This demonstrates that network reliability is more responsible for system outages. The following graph shows that NSW Distribution Network Service Provider (“DNSP”) reliability has remained static over the past five years, and needs to be assessed against individual DNSP licence obligations, as set down by the Independent

⁴ p.65

⁵ Lovegrove, K. et al., *Comparison of Dispatchable Renewable Electricity Options – Technologies for an Orderly Transition*, 2018

⁶ Reliability Panel, *Annual Market Performance Review 2018 – Final Report*, 4th April 2019, p.81, Figure 16

Pricing and Regulatory Tribunal. At face value the Energy Council does not believe that any improvement to reliability is necessary, since doing so will impose additional costs on consumers.

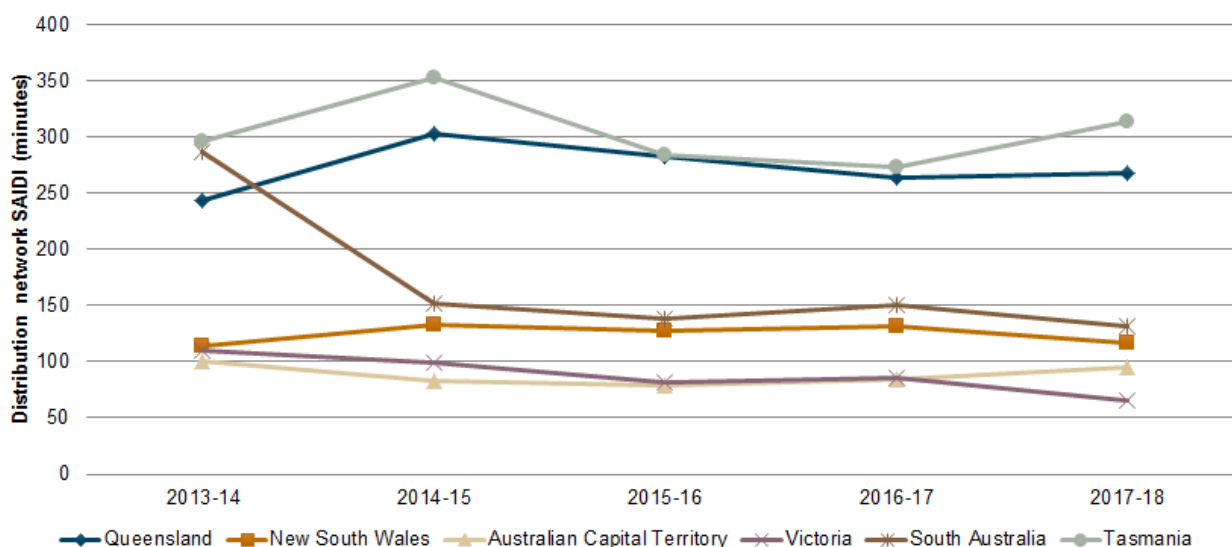


Figure 2: Distribution Network System Average Interruption Duration Index

Source: Reliability Panel⁷

Demand Management

The Energy Council notes the Productivity Commission’s queries regarding improving electricity demand management and highlights the work the AEMC has conducted in this regard. On 18th July it issued a draft determination to implement a wholesale demand response mechanism,⁸ and foreshadowed that the mechanism would be extended to smaller customers in the future. Implementation is scheduled for 1st July 2022 to accommodate the market and system changes required by the Australian Energy Market Operator, industry and other stakeholders.

Given the comprehensive work done by the AEMC to assess the three wholesale demand response rule change requests (one of which was initiated by the Energy Council), there seems little additional work that NSW can do which would improve the changes planned.

Ensuring secure and reliable supplies of gas

The majority of NSW’s gas supplies come from interstate, along the Moomba-Sydney Pipeline or the Eastern Gas Pipeline, and this may be a limiting factor in increasing gas penetration, and the development of further gas-fired generation. The Energy Council therefore encourages government to facilitate natural gas development in a responsible and environmentally appropriate manner.

This facilitation by government is important for energy supplies to develop in the most efficient way possible, and needs to be married to long-term policy certainty to foster business investment. Policy uncertainty and government intervention are sure-fired means by which investor confidence is damaged, and business investment diverted to other locales and industries. The investment environment is also inadvertently harmed when government seeks to allocate subsidies or otherwise distorts the market by preferring a particular project.

Accordingly the Energy Council believes that government is at its best when it creates a broad investment-friendly policy environment without engaging in the specifics of that investment.

⁷ Ibid., p.189, Figure B.2

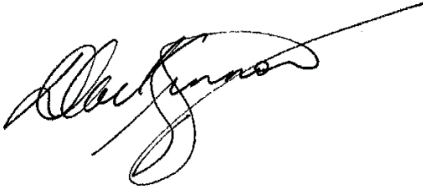
⁸ Australian Energy Market Commission, *Wholesale Demand Response Mechanism – Draft Rule Determination*, 18th July 2019

Conclusion

The Energy Council holds the firm belief that a stable regulatory environment is necessary for innovations to flourish and efficiencies to be seized. Ensuring that NSW is aligned to national frameworks is important in achieving these goals, and the Energy Council encourages the Productivity Commission to consider how best to facilitate the development of additional gas supplies to underpin industry and foster the development of gas-fired generation to complement the increasing volumes of variable renewable energy.

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

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal flourish extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council