

Response to the Energy Security Board's Draft Detailed Design of the National Energy Guarantee (NEG)

Submission to the Energy Security Board
13 July, 2018

Response to the Draft Detailed Design of the NEG

The Australian Chamber of Commerce and Industry (Australian Chamber) welcomes the opportunity to comment on the Energy Security Board's (ESB) Draft Detailed Design Consultation paper.

The Australian Chamber, through its eight state and territory chambers of commerce and industry members, and over 70 national and state industry association members, represents over 300,000 businesses in all regions of Australia and across all sectors of the economy.

We applaud the government's and ESB's efforts to date to resolve uncertainty over long-term energy and climate policy, and encourage federal, state and territory governments to work together constructively and with a sense of urgency to that end. That is all the more important given the politically charged and, at times, emotional character of the debate.

The Australian Chamber's members support the NEG as a long-term, bipartisan, nationally agreed policy solution to help guide investment in the electricity generation sector.

However, our members have also stated that this policy must help to deliver lower costs for consumers. With that in mind, the Australian Chamber acknowledges some early modelling from the ESB that suggested prices might fall. However, the Australian Chamber remains concerned that the draft detailed design does not sufficiently specify how this will be achieved. We note that the NEG contains an emissions target and a reliability obligation, but is silent on a cost target or obligation.

Ultimately, the success or otherwise of the NEG will be judged to the extent to which energy costs come down. The Australian Chamber is concerned that if the problem of cost is not dealt with, then investment uncertainty will increase over the medium to long-term – and the problems of the past will continue.

This in turn could undermine any reduction in prices which would be expected from lower uncertainty encouraging increased investment, because uncertainty won't in fact be lowered. Indeed, there is a risk that uncertainty would increase.

We consider that this is a significant issue which needs to be addressed, otherwise it could undermine the medium to long-term acceptance of the NEG and perpetuate, if not exacerbate, risk to Australian businesses.

The ESB nominates four ways that the NEG will lower prices:

1. By providing an integrated energy and emissions reduction policy and certainty in the mechanism to deliver the policy, the NEG lowers the risks on investment in new renewable and non-renewable generation capacity.
2. The NEG is likely to result in an increase in the proportion of generation capacity contracted (and therefore reduce the proportion that is uncontracted). This will increase supply by incentivising generators to be available at times the system most values the generation output (i.e. when spot prices are high). This is likely to reduce both the level and volatility of spot prices due to a combination of more competitive spot market bidding and the risk reduction from having more capacity contracted.
3. The NEG will incentivise investment in low cost dispatchable resources, which may include intermittent renewables 'firming up' their capacity, for example by investing in storage. This will enable renewable generators to supply firm-capacity contracts, such as swaps and caps, and compete with existing dispatchable capacity, increasing contract supply and liquidity and lowering contract prices.
4. The technology-neutral nature of the NEG's reliability requirement means both demand and supply-side resources can be used. By allowing demand-side resources to compete with the generation sector, the NEG ensures that supply-demand balance is achieved efficiently.

The Australian Chamber notes that point 1 is perhaps only achievable in an environment where energy costs fall. An integrated energy and emissions reduction policy is important certainly, but the political reality is that it means little if businesses and households pay higher costs. That outcome – higher costs or ongoing high costs – only increases the likelihood that consumers call for more aggressive government intervention in the market to deliver price relief. If the problem of high energy costs is not dealt with, ongoing investment uncertainty is likely.

Point 3 may lead to lower relative costs, but it is not clear what that is relative to. Lower relative costs are not the same as lower energy costs in absolute terms compared to today's prices. We don't see evidence of a mechanism or obligation to ensure that lower absolute costs from today's prices would result.

We would like to see more detail to support the points 2 and 4. Point 2 seems plausible but the language used in the report and the use of the word 'likely' highlights the uncertainty of outcomes from point 2.

We urge the ESB and the government to recognise the importance energy costs have for energy consumers, for jobs, for investment and for the country's competitive position and address this more clearly in the detailed design of the NEG.

The impact of high and rising costs cannot be understated. With that in mind we are encouraged by comments from the Minister for the Environment and Energy:

“Under the National Energy Guarantee, power prices will fall. That is why businesses and their representatives, representing over five million workers, were in the parliament this week—to confirm that the National Energy Guarantee is in the national interests. It will mean lower wholesale prices by an average of 23 per cent.”¹

This is positive direction which we welcome. Business needs confirmation, which could be met through a detailed plan of how this is going to occur at the wholesale and retail level.

If it is the case that the NEG cannot, by itself, deliver a significant reduction in energy costs, then we encourage the ESB and government to recognise that, and for measures outside of the NEG to be explored as a matter of urgency. This approach would recognise that the NEG is an important part of, but not the whole of, the solution to higher prices.

With that in mind, the government should simultaneously look at issues of competition in the generation, transmission and distribution of electricity.

Governments should adopt policies that encourage increased volume of gas to be made available, and greater competition in the supply of gas, in order to reduce the cost of gas as a source of energy. Importantly that should include unlocking gas resources which have been sterilised through state and territory government bans on exploration and development of gas.

The issue of high network costs needs to be addressed. We note the Australian Competition and Consumer Commission’s (ACCC’s) report into energy supply and pricing released on 11 July. While the Australian Chamber is still working through the detail, our first impressions are that many of the ACCC recommendations are sensible and offer a number of ways to reduce energy costs.

The Australian Chamber strongly endorses the ACCC’s view “that restoring affordability will require wide ranging and comprehensive action”.

There is significant goodwill towards the NEG in the business community. Business wants a plan that receives multiparty support. Business wants to see an end to the investment uncertainty that has created so many problems.

This requires governments to deal with the issue of energy costs effectively.

With that in mind, the Australian Chamber seeks a commitment from federal, state and territory governments, collectively and individually, to policies that will lead to a significant reduction in energy costs over a short period of time. These policies should be accompanied by an estimate of the extent to which they will reduce costs, a timeframe for their urgent execution and a means of publicly monitoring progress and verifying outcomes achieved.

Australian Chamber’s principles in response to the energy crisis

The Australian Chamber’s members have agreed on the following principles in response to the energy crisis facing Australian businesses:

- *Federal, state and territory policy makers to adopt a sense of urgency in dealing with the energy crisis. The business community needs immediate relief and action that will deliver lower energy costs.*
- *Practical, viable and meaningful measures that will ease the pressures on electricity costs for Australian households and businesses.*

¹ Hansard, House of Representatives, Thursday 28 June 2018

- *Support measures to introduce increased generation capacity, including from non-vertically integrated new entrants.*
- *Advocate for affordability and reliability of energy, which must be at the heart of government policy solutions.*
- *Subject to the above, support a long term, bipartisan, nationally agreed policy solution, such as the NEG, in order to meet Australia's emissions reduction commitments. This is in order to guide investment in the electricity generation sector. This policy must help to deliver lower costs for consumers and ensure reliability.*
- *To the extent that state and territory governments share responsibility for energy policy and market regulation through COAG, it and individual government leaders should be held accountable for a solution to the energy crisis in the near-term.*



About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

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