Power council goes to water and consumers suffer

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The Standing Council on Energy and Resources that met in Brisbane on Friday is, metaphorically speaking, a bad case of power failure.

In March, the Australian Energy Market Commission – the independent rule-maker for electricity markets – reported power prices have risen by 14 per cent during the current financial year. This alarming rise follows a trend of double-digit rises over the past five years and is largely due to increases in the regulated prices charged by transmission and distribution networks.

The commission also tried to reassure consumers that big increases in power prices were slowing, predicting a 3 per cent increase in each of the next two years to 2014-15. But consumers still deserve a better deal.

As a Grattan Institute report on how to provide cheaper electricity made clear last December, Australians pay too much for power because distributors are allowed to charge their customers too much. The regulation of networks is broken. Fixing it could save consumers $2.2 billion a year.

But finding these much-needed savings does not seem to have figured highly at Friday’s meeting of the federal, state and territory energy and resource ministers who make up the standing council.

The communiqué from the meeting indicates the ministers discussed a range of problems facing Australia’s energy industry. These included the need to reform the energy market and the battle over the mining of coal seam gas. But it is much less clear that the standing council discussed the bigger question of how to deliver the reforms needed to develop Australia’s resources and provide affordable, reliable and sustainable energy.

Did the ministers review progress toward the Prime Minister’s promise that COAG’s December agreement will help to reduce annual power bills for Australian families by $250? If so, it is not evident in the communiqué.

There was some good news. The standing council acknowledged consumers faced “higher than necessary prices” if distribution businesses are allowed to charge customers for the cost of capital expenditure to meet high electricity demand forecasts when actual demand is falling and the expenditure is unnecessary. The council committed to monitor the effectiveness of rule changes in this area. Overall, though, the standing council is simply not sufficiently accountable for results. It seems to focus too much on the individual work programs of regulatory bodies and agencies, and not enough on the overall outcome.

Best interests of consumers

In September, the COAG Reform Council identified energy as one of eight areas of regulatory reform with significant potential benefits to the economy that were at risk of not being delivered. In December, COAG endorsed an energy market reform program and implementation plan that included recommendations to strengthen regulation, empower consumers, enhance competition and innovation and ensure balanced network investment. The goal is to ensure market outcomes in the best interests of consumers. Yet the extensiveness of the plan makes it highly likely it will dilute activity without making governments accountable for results.

The argument over whether to mine coal seam gas in New South Wales is another example of how the system is failing. Coal seam gas could transform Australia’s gas industry and dramatically lift our LNG export earnings beyond $50 billion a year by 2017-18, making Australia the world’s biggest gas exporter.

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Yet further development of coal seam gas, especially in NSW is constrained by considerable public opposition. Industry and government have been too slow to address community concerns over the environmental impacts of coal seam gas extraction technologies.

On Friday, the standing council endorsed a national, harmonised regulatory framework for coal seam gas. Yet there is little in the communiqué that gives urgency to implementing the framework. Meanwhile, gas suppliers in NSW claim constraints on coal seam gas development could prevent the resource from being developed or even put gas supply in NSW at risk.

Getting on with the job would have demonstrated that recent outbreaks of the blame game between Canberra and Sydney were a short-term aberration. Neither unconstrained development of coal seam gas nor shutting down the industry is the right answer. The standing council must move decisively to implement a clear, national approach that provides certainty for both the industry and environmentalists.

The history of both COAG and the standing council suggest big plans and relatively poor outcomes. Since the council’s December meeting, Victoria has a new representative in minister Nicholas Kotsiras and the council has a new chair in Minister Gary Gray. If opinion polls are right, the new chair may only last as long as the federal election. It is a pity the council’s old and new members did not seize the moment to deliver better results for energy consumers.

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