

## Putting the customer back in front

How to make electricity cheaper

Tony Wood



## Shock to the system

Dealing with falling electricity demand

Tony Wood and Lucy Carter



## Fair pricing for power

Tony Wood and Lucy Carter



# GRATTAN

Institute

## Energy Affordability - where to from here?

### Energy Perspectives 2014

Tony Wood

Grattan Institute

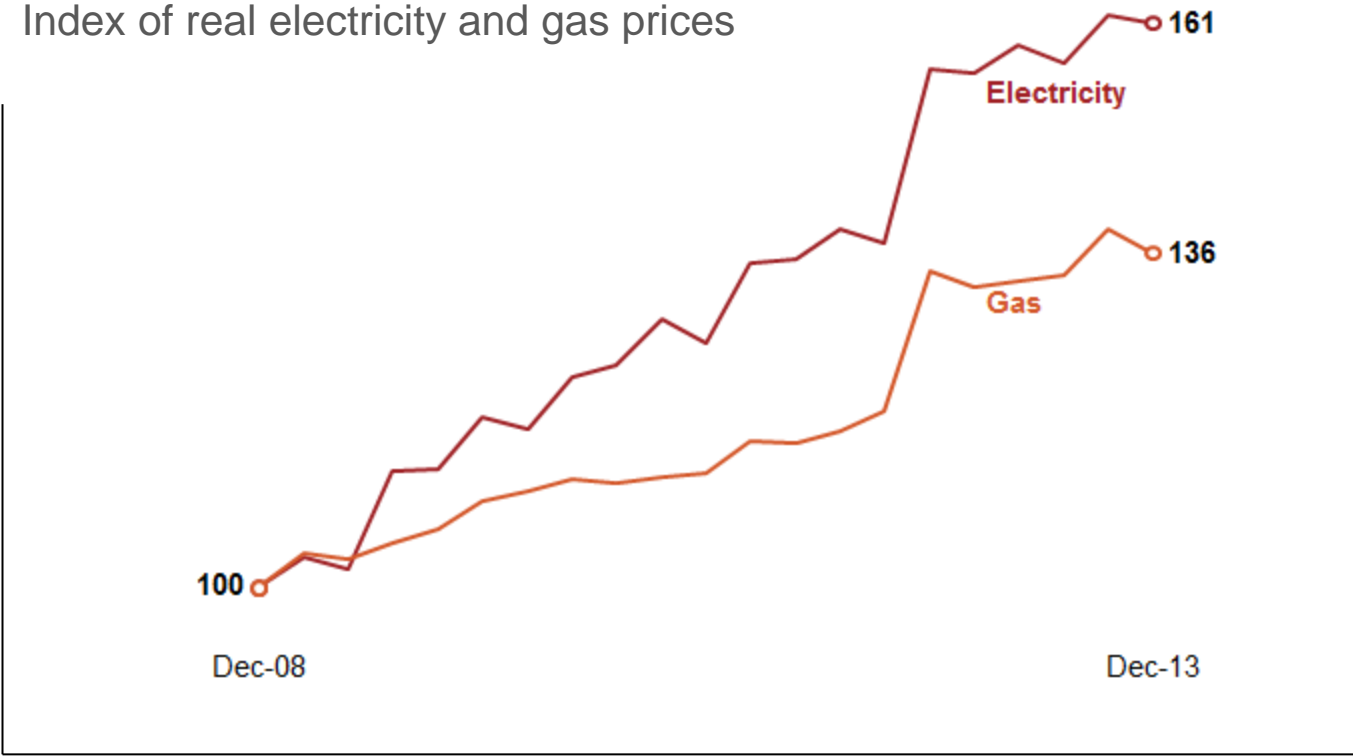
20 November 2014

## Outline

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- **What's been happening with energy prices and affordability**
- **What might/should happen next?**
- **What should governments do?**

# Household electricity and gas prices have increased substantially

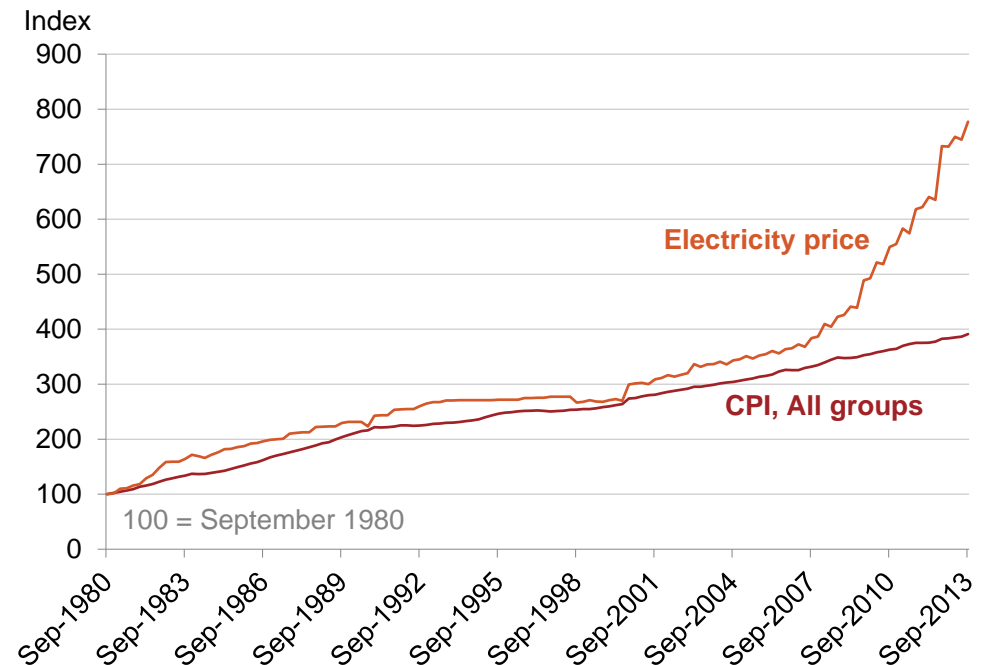
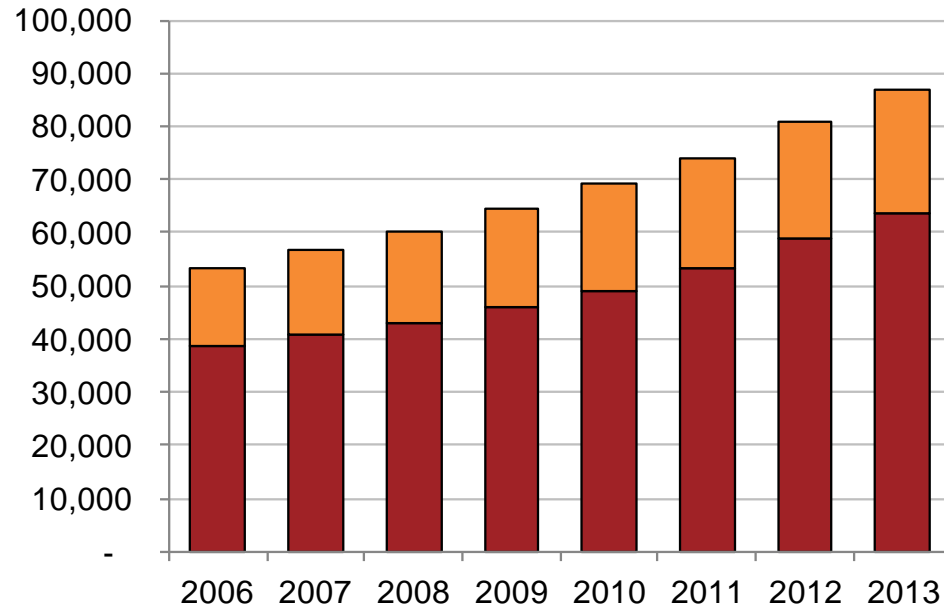


## Network spending and rising power prices

Rapid increases in network spending have been driving retail power prices

### Network costs grew by 64% between 2006 and 2013...

\$ million (real \$2012-13)



...and electricity prices grew by 75%.

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### Recommendations

#### Address clear regulatory flaws

- Align rates of return with the risks involved and the cost of managing those risks
- Establish a consistent, national approach to setting reliability standards
- Address governance concerns with government ownership or privatise
- Review capital expenditure against updated forecasts

## Shock to the system

Strategies to reduce network costs in a time of falling demand

### Recommendations

#### Shock to the system

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#### Address overinvestment and make prices more cost-reflective

- Ensure that investments better match future needs
- Begin the hard task of reforming network tariffs to reflect costs incurred
- Review the value of network assets – who pays?

## Fair pricing for power

Strategies to make prices fairer and cheaper



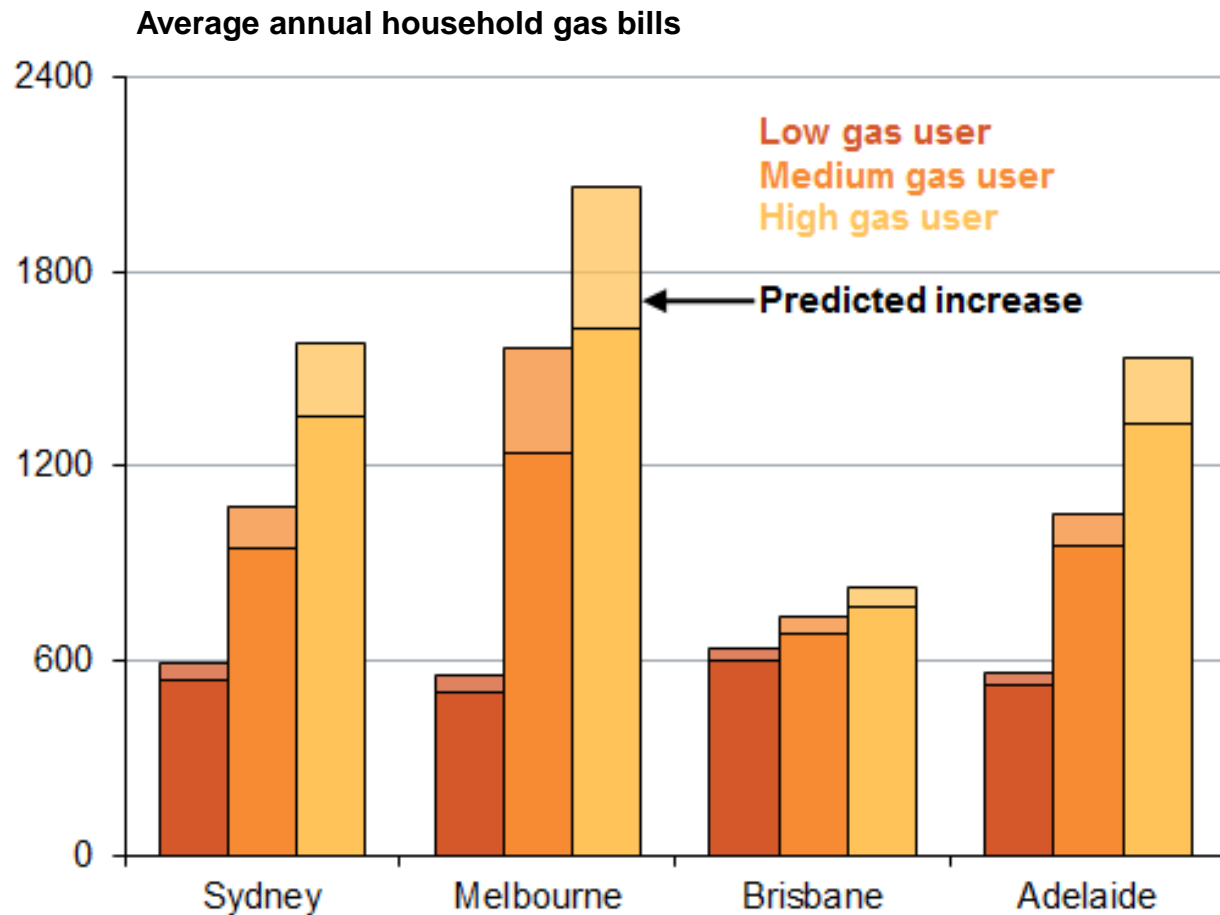
## Recommendations

### **Make prices more cost-reflective**

- A capacity charge better reflects the cost of building and operating the network. It would remove unfair subsidies
- Critical peak pricing would reduce peak demand and ultimately, lower prices

## Gas looks bad, with greater localized consequences

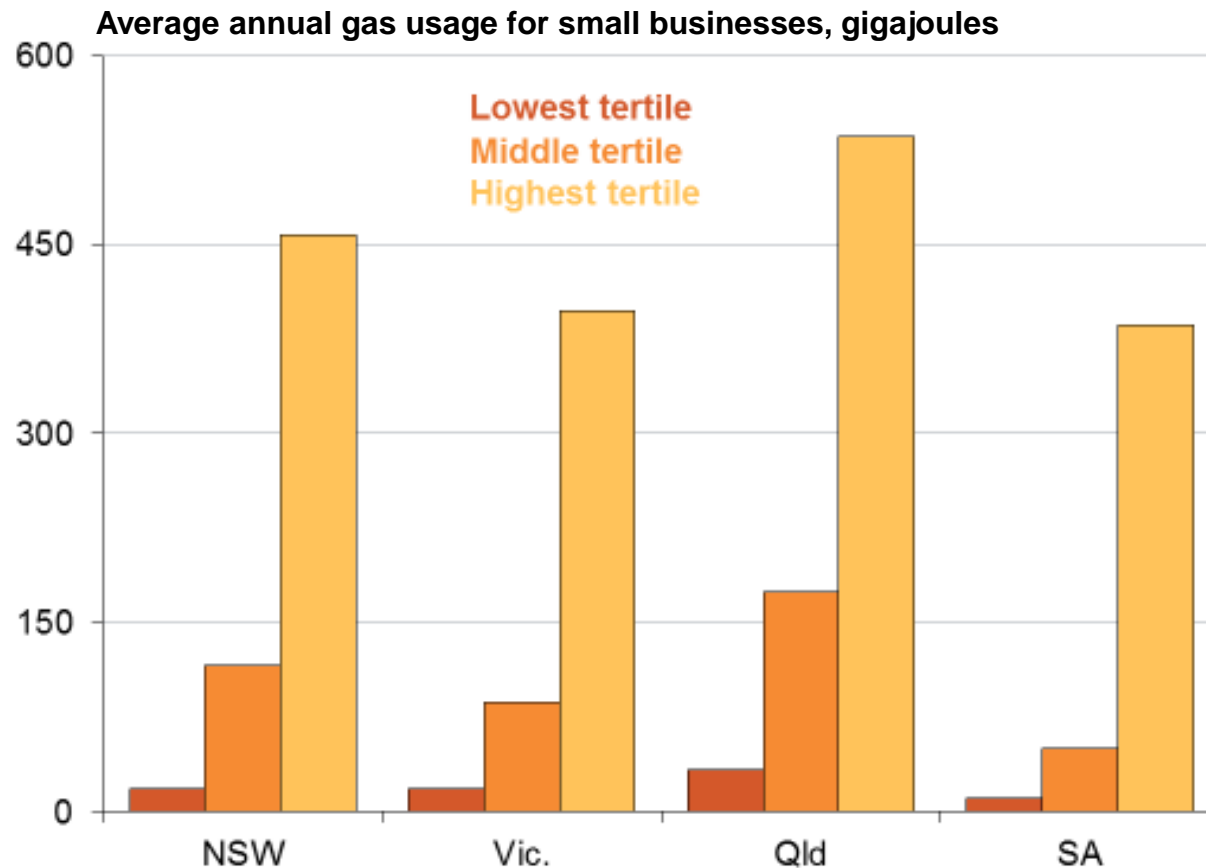
And, price increases will be biggest where gas is used the most





## Some small businesses will be heavily impacted

**Bakers, drycleaners and food processing businesses are particularly gas-intensive**



**Like households, their choices are limited**

## What could happen next?

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### Electricity

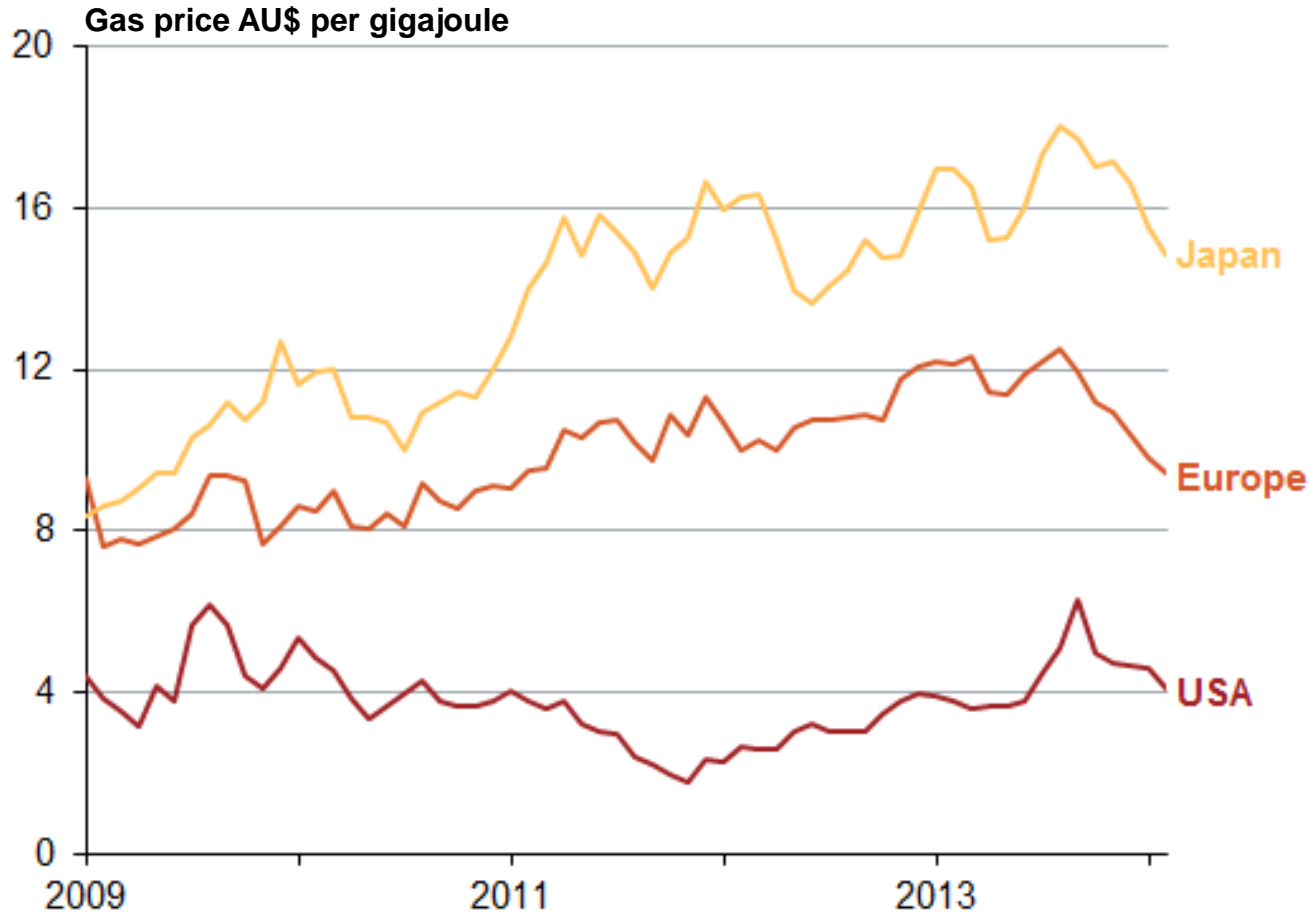
- Next regulatory reset should see relief from price increases if not decreases
- Network tariff reform should move into specific structural change
- Sale of government-owned assets
- RET uncertainty and other climate policy

### Gas

- Next regulatory reset should see relief from price increases if not decreases
- LNG exports begin from Gladstone should provide some clarity
- Additional supply contracts and/or sources
- Resolution of CSG impasse in NSW and Victoria

## International gas prices have been diverging

The shale gas revolution and the Tsunami in Japan have made big impacts



## **Actions for governments: electricity**

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### **Do:**

- **Drive network tariff reform**
- **Support asset sales and full retail competition**
- **Monitor retail competition**
- **Resolve climate change policy uncertainty**

### **Don't:**

- **Consider any form of contract for closure**

## Actions for governments: Gas

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### **Do:**

- Remove inappropriate barriers to supply
- Communicate the price issues more clearly
- Remove barriers to competition in the gas market
- Ensure effective support for vulnerable consumers
- Commission a review of gas market competition
- Review current resource tax and royalties

### **Don't:**

- Reserve gas for domestic markets
- Introduce a national interest test
- Repeat the subsidies for regional gas extensions
- Subsidise domestic prices

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