

SACOSS Essential Services Factsheet: Energy



The Australian Energy Market Commission (AEMC) Review of Energy Market Frameworks in light of Climate Change Policies

Overview

As directed by the Ministerial Council on Energy (MCE), in August 2008 the AEMC began its *Review of Energy Market Frameworks in light of Climate Change Policies* (the 'Review'). The aim of the Review was to consider whether current regulatory frameworks were sufficiently capable of ensuring the long term interests of consumers (as per the National Energy Objective (NEO)), as and when the Carbon Pollution Reduction Scheme (CPRS) and the Renewable Energy Target (RET) are implemented. The main impetus behind the Review is the fear that when market signals are sent to electricity generation businesses (in particular), the carbon cost of generating with coal or 'dirty' gas would be too great to bear for the retailers who purchase this energy to then on-sell to consumers. The end result — so goes the reasoning — would be retail failure, which is not considered to be in the long term interests of consumers.

While the Final Report was released in September 2009 (the AEMC already having published two Interim Reports), it was still predicated on the introduction of an emissions trading scheme (ETS) of some description. As we all now know, the CPRS has been defeated in the Senate and as of February 2010 there is still no clear ETS in sight. There are however key issues to note arising from the Review, the main one of which is the recommendation that retail price regulation be made significantly more flexible for retailers (so they can pass through their additional costs), or else done away with altogether.

SACOSS has taken issue with the recommendations of the AEMC on 2 main fronts:

1. If additional generation costs are to be passed through to consumers, there is then little in the way of incentivisation for renewable generation.
2. The easing of retail price regulation would represent a further burden on low income and disadvantaged consumers who already pay more for energy, as a percentage of income, than those on higher incomes. Promised Commonwealth relief via the tax and transfer system is unlikely to fully compensate these households.

What the Review means to retailers

The Review Final Report is for all intents and purposes retailer-oriented. Despite the fact that the AEMC clearly views the avoidance of retailer failure as not in keeping with the NEO (and this is hard to dispute), it is evident that placing so much of an emphasis on the ability of retailers to pass through additional wholesale energy purchase costs to consumers represents an unnecessary bias. The AEMC recommends that where jurisdictions consider retail price regulation should be maintained (that is, in every state

in the NEM with the exception of Victoria), this regulation should be made more flexible. By 'more flexible', the AEMC means that:

- Price reviews should be undertaken more regularly
- Retailers should have the ability to initiate retail price reviews

In summary, retailers would have more power over price regulatory processes under recommended changes, and would be able to avoid hedging against wholesale price spikes by simply passing these through to consumers. This is despite the fact that current hedging arrangements are paid for through retail pricing anyway.

What the Review means to consumers

Under an ETS (that is, a carbon 'cap and trade' system – see the SACOSS factsheet *Energy — ETS*) there is little doubt that consumers will pay more in order to fund a change in energy generation. The Review has highlighted these rising costs, with modeling showing a retail price rise of between 18-27% in the initial stages of the proposed ETS. However if the AEMC's recommendations were to be acted upon, it is likely that these additional costs will be exacerbated at the same time that the rigor of current retail price regulation would be scrapped in favour of a more retailer-oriented system. Ultimately consumers would be participating in the abrogation of retailers' responsibility to manage their own risks, while also subsidising 'dirty', or carbon intensive, generators. While some of the outcome's detail depends in some way on the final make-up of an ETS, hope can be taken in the fact that the current South Australian Energy Minister (February 2010) has persistently shown support for the Essential Services Commission of SA's (ESCOSA) ongoing rigorous regulation of retail prices.

What the Review means to community sector organisations

Community sector organisations should be aware of the potential impacts of an ETS and the penchant for the AEMC to favour retailers over consumers in its reviews. As mentioned above, it is certain that energy bills will rise under an ETS of any form, and there is equal certainty that rising bills will increase pressure on already stretched services. By highlighting the current plight of client and constituent groups that will be affected by energy price rises, organisations can enter the debate on the side of the consumer and increase the pressure on the South Australian energy minister to withstand pressure from the MCE and AEMC to deregulate — or ease the regulation of — retail pricing.

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