

**Submission  
No 219**

## **SUSTAINABILITY OF ENERGY SUPPLY AND RESOURCES IN NSW**

**Name:** Mr David Mehan

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# David Mehan MP

## STATE MEMBER FOR THE ENTRANCE

16 September 2019

Mr Alex Greenwich  
Chair  
Legislative Assembly Committee on Environment & Planning

Dear Mr Greenwich,

### **Sustainability of energy supply and resources in NSW**

I welcome the inquiry and take this opportunity to make the following submission on behalf of my constituents.

The cost of energy is one of the most significant concerns my regional community has and the cost of energy is one of the biggest threats to economic development and security for my community and I ask the Committee to have proper regard to the cost of energy in its deliberations and report.

The difficulties navigating and the cost burden of the National Energy Market (NEM) is a source of regular complaint to my office. And energy cost is a burden to business in my electorate and has been nominated as the single biggest threat to business viability by each of the three biggest manufacturing businesses located in my electorate<sup>1</sup>.

The Committee should also consider whether being part of the NEM is in the best interests of NSW. The NEM has little regard to adequacy of supply and affordability of price, the National Energy Regulator simply reports on these and hopes the market will work it out. The results have been disastrous. As the 2018 State of the Energy Market Report noted:

#### **On supply:**

*While 2200 MW of new generation investment was added to the NEM over the five years to June 2017, over 4000 MW of capacity was withdrawn over the same period.<sup>2</sup>*

#### **On price:**

*Electricity prices rose by 56 per cent in real terms over the 10 years to 2017–18. Australian electricity prices, traditionally low by global standards, are now around 10 per cent above the European average.<sup>3</sup>*

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<sup>1</sup> Sanitarium, Masterfood and Sara Lee.

<sup>2</sup> AER, State of the Energy Market Report 2018, page 98.

<sup>3</sup> Ibid, page 10.

I note that current generation capacity located in NSW is in the order of 17000MW. One of our largest generators, Liddell, represents 10% of this and is scheduled to close in 2023. The owner of Liddell has announced a scheme to replace this loss however, there is no guarantee this replacement capacity will be built and no mechanism under the NEM to ensure it does. The Committee will recall that Wallerawang C was closed soon after its privatisation in 2014 removing 1000MW generation well before the end of its useful life. Removal of generation capacity allowed generators to increase prices and saw the spot price of electricity increase from less than \$60 per megawatt hour in the years before 2014-15 to more than more than \$80 in the years since 2016<sup>4</sup>.

Given that most of the generation capacity of NSW (about 60%) is coal fired, the Committee should consider the need for formal processes to be in place to ensure that as these plants close the generation capacity lost is replaced by new generation. No such process exists under the NEM (the 'reliability' mechanism doesn't allow the regulator to intervene when an owner decides to close a generator). As indicated above, removal of capacity has led to a big increase in the spot price.

As to retail prices I note the release today of the Australian Competition & Consumer Commission Inquiry into the National Electricity Market—August 2019 Report which has recorded falls in the standing offer retail price as a result of government regulatory intervention by the Commonwealth and Victorian Governments. In this regard I ask the Committee to consider the greater price improvements achieved by Victoria which has adopted a 'fair price' default offer<sup>5</sup>.

Energy supply in NSW could be made a whole lot cheaper and the supply a whole lot more certain if NSW withdrew from the NEM and established a state government authority as the single buyer of wholesale electricity for the state. The authority would be able to ensure that enough new generation capacity was available to keep the spot price below a level which could be set by the Minister and allow an orderly transition to greater renewable generation. The authority would be able to keep existing generators operating until reliable replacement capacity was in place. Fair price rules for retailers like those in Victoria could then be introduced to ensure retail pricing fairness.

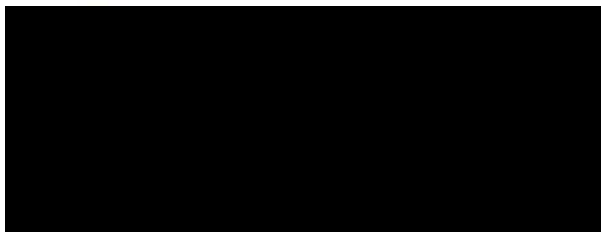
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<sup>4</sup> Ibid page 111, Figure 2.25.

<sup>5</sup> ACCC Inquiry into the National Electricity Market—August 2019 Report, page 4.

I look forward to your report.

Yours sincerely



**David Mehan**  
Member for The Entrance