

**Submission
No 75**

**INQUIRY INTO ELECTRICITY SUPPLY, DEMAND AND
PRICES IN NEW SOUTH WALES**

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Select Committee on Electricity Supply, Demand and Pricing

Accountability, Cost
Shifting, Equity and
Outcomes

**On behalf of impacted
communities, associations and
concerned residents of
Southern and Central NSW
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Executive Summary

There is a multiplicity of parties deriving benefits and subsidies from the current state of the electricity market in NSW.

Indeed most of the submissions to this inquiry will be from those well-funded entities with the capacity to employ full time marketers and consultants to confuse and conflate their so called facts. Other submissions will be from environmental interest groups located in areas not directly impacted by the costs.

In contrast, this submission is made on behalf of those who bear the most direct impost of the current, projected and still being lobbied for subsidies. The Committee has been established to enquire on the complex issues of supply, demand and prices. In particular the reasons for large increases in prices, plus the alleged collusion and price gouging. We simply ask the committee to take **a high level principles based approach**, rather be swayed, confused or misdirected by those rent seekers trying to maintain the status quo.

It is given (and part of the terms of reference -TOR) that large price increases have occurred. Whenever there is disruption and large excess rents to be made, including via legislated schemes, and regardless of the industry involved - it is well understood that the opportunity for profiteering comes to the fore.

Further the TOR's reference to alleged collusion clearly highlights that the effectiveness or impact of current regulatory standards and guidelines (TOR point D) is inadequate. There are as a result changes required in order to resolve the matters covered in the TOR points E to H (options, adequacy, programs and related matters). Our recommendations cover those changes using a principles based approach which focuses on Accountability, Cost Shifting, Equity and Outcomes.

It is very clear that the Federal RET scheme, combined with State based schemes are the major cause of price increases, cost shifting between regional and city areas plus between States and the derogation of reliability of supply. It has created opportunities for excess rent seeking.

The imposition of the requirement for electricity retailers to purchase LRET certificates for a proportion (rising to 33,000 GWhr in 2020 or circa 23.5% of total electricity sales) of each unit of baseload power sold is the major cause of the price increases. The Federal Legislation sets a \$65 penalty for each certificate not purchased, there is no tax deduction available on this penalty and hence the price of certificates is effectively capped at a tax inclusive price of \$93. Certificates have traded near this level. Naturally this cost is passed through to consumers, marked up at retail power prices including retail margins. The retail power price need to also cover the extra distribution costs, lower reliability costs, cost of financial markets trading activities and the profits of the multitude of parties involved in the scheme.

With wholesale baseload electricity traditionally costing circa \$40, the Federal RET is clearly the cause of the recent large price increases. However the State of NSW has the power, can and should react to protect its competitive position and to ensure its regional citizens do not wear the brunt of the imposition being pushed by city electorates and inner city concerns.

Submission

As a general principle, the States should support the efforts and programs of the Commonwealth. However where those federal programs are misplaced, overtly political in nature, captured by ever-changing federal political considerations, designed to mislead the public, create opportunities for malfeasance, drive higher cost impositions on NSW consumers and the potential for other States to profiteer – the Parliament of NSW should interject in a meaningful manner.

The Federal LRET scheme's purpose is supposedly designed to reduce carbon emissions and meet international (Paris) targets. In that regard we note that Australia's Chief Scientist recently testified to the (Federal) Senate that *totally* abolishing Australia's emissions of carbon dioxide would make virtually no difference to the world's climate. However, we understand, that for some NSW parliamentarians this will not be sufficient evidence to react.

To those undecided NSW legislators, we turn to the implementation of the Federal Renewable Energy (Electricity) Act 2000 itself. Specifically:

- the 2nd Object under the Act being to reduce GHG CO2 emissions,
- the 3rd Object to be ecologically sustainable (as defined by the Act), and
- Regulation S15A(a), namely that the LRET certificates are to be produced only by large scale wind & solar generators (etc.), with Electricity omitted from this calculation including electricity that was generated by using an eligible renewable energy source that is not ecologically sustainable.

Ecologically sustainable is defined as an action is consistent with the following principles of ecologically sustainable development.

(a) decision-making processes should effectively integrate both long-term and short-term economic, environmental, social and equitable considerations;

(c) the principle of inter-generational equity, which is that the present generation should ensure that the health, diversity and productivity of the environment is maintained or enhanced for the benefit of future generations;

(e) improved valuation, pricing and incentive mechanisms should be promoted.

In regards to Object 2 – there is currently **no accountability or evidence that the amount of coal being loaded into a coal fired power station changes when the wind blows and the turbines generate electricity**. NSW should require that this evidence be publicity made available via the EPA.

Of course it is only when a coal power station closes, that coal stops being burnt. However as South Australia has found that is when blackouts occur or when they rely on NSW's coal fired power stations (of course SA effectively also gains the RET subsidy under this approach).

In regards to Object 3 – The current approach cannot be said to be **ecologically sustainable** by its own definition.

It is one thing to support a Federal policy that isn't working, it quite another to mislead by omission or engage in malfeasance with the NSW voting public on its impact.

Recommendation 1 – EPA Data

Specifically, we recommend the NSW parliament required the EPA to obtain from all LRET NSW (Coal Gas, Wind, and Solar) generators the following data and publish it on a website every month.

Generator Name:

15 Minute Interval	Amount of Fuel (coal, gas) loaded*	Electricity Generated*	Electricity sent to Grid*	Emissions CO2, NOX*
0.00				
0.15				
0.30				

- This data will be/is already automatically available via the generators
- The 15 Interval timeframe is aligned with the already available NEM Data

From this the EPA will produce and publish the following table

15 Minute Interval	Total Coal loaded	Total gas loaded	Total Electricity Generated* coal	Total Electricity Generated* gas	Total Electricity Generated* Wind	Total Electricity Generated* Solar	Total Electricity sent to Grid*	Total Emissions CO2, NOX*	Net Electricity imported/export from NSW
0.00									
0.15									
0.30									

This will prove, **what if any reduction occurs in coal/gas being burnt and emissions made when wind or solar is in producing electricity.** This is a simple missing accountability measure.

Many NSW residents are also under the false impression that regional communities are benefiting from large Scale Wind and Solar expenditure. This is far from factual, with production of equipment and generator ownership largely being offshore, retailer businesses and financial energy market traders being city based and repairs largely done on a FIFO basis.

Indeed regional residents bear direct and indirect costs from the current imposition of electricity production facilities in their council areas, in addition to the extra electricity costs. Higher electricity costs impact regional consumers more via water pumping and other requirements.

The net impact of the benefits flowing elsewhere and cost being borne locally is having a duplicated impact and which when combined with economic multiplier effect is poor public policy. We recommend the EPA also publish the following information on a yearly basis.

Generator Name:

Postcode	Capital Expenditure	Wages	Operational (ex wages)	Other	Total

Recommendation 2 – Local Council Revenue

We recommend that the State Government:

- 1) Confirm that it will not interfere or override Local Council decisions in regards to charging large scale electricity producers under section 611 of the Local Government Act, so long as the charge is less than the tax inclusive amount of any federal subsidy or penalty (i.e. currently \$93 Mwhr)
- 2) Underwrite a test case with a local council, in order to send a clear signal of support.

S611 Annual charge on rails, pipes etc.

(1) A council may make an annual charge on the person for the time being in possession, occupation or enjoyment of a rail, pipe, wire, pole, cable, tunnel or structure laid, erected, suspended, constructed or placed on, under or over a public place.

(2) The annual charge may be made, levied and recovered in accordance with this Act as if it were a rate but is not to be regarded as a rate for the purposes of calculating a council's general income under Part 2.

*(3) The annual charge is to be **based on the nature and extent of the benefit enjoyed** by the person concerned.*

(4) If a person is aggrieved by the amount of the annual charge, the person may appeal to the Land and Environment Court and that Court may determine the amount.

(5) A person dissatisfied with the decision of the Court as being erroneous in law may appeal to the Supreme Court in the manner provided for appeals from the Land and Environment Court.

(6) This section does not apply to:

(a) the Crown, or

(b) the Sydney Water Corporation, the Hunter Water Corporation, Water NSW or a water supply authority, or

(c) Rail Infrastructure Corporation, or

(d) the owner or operator of a light rail system (within the meaning of the Transport Administration Act 1988), but only if the matter relates to the development or operation of that system and is not excluded by the regulations from the exemption conferred by this paragraph.

This method will see councils receiving significant additional revenue, in the case of a wind turbine with cables crossing a public place of up to the subsidy amount – currently circa \$900,000 per year per turbine. The charge will be on the basis of the amount of electricity that has flowed (and the benefit enjoyed) via that specific wire, pole or cable.

This approach is fully consistent with the opportunities enjoyed by city based councils. City councils charge for car parks (different amounts in various locations) for revenue purposes. Regional and rural councils should be able to charge on a similar basis for the imposition of turbines and generators on their residents.

Different regional councils will take different approaches, some encouraging development of electricity production facilities by lower charges others will discourage via higher charges.

Local councils are subject to democratic elections and hence residents will have the ability to influence outcomes. This local community approach should be supported.

The evidence in recommendation 1 from the EPA will provide further ongoing support for this approach.

Recommendation 3 – Federal Subsidisation

It is recommended that the NSW Government not pay for LRET certificates on the power it uses. This currently occurs on a voluntary basis.

This voluntary approach is inappropriate given the implementation of this scheme is based on the false premise of it achieving emissions reductions and it being ecologically sustainable.

The NSW government should not be a party (particularly on a voluntary basis) and use Public Monies to support a scheme that in practice is known to cause large increases in prices, plus alleged collusion and price gouging (see TOR).

The NSW government should insist on an evidence based approach – not to do so could lead to claims of malfeasance. The evidence in recommendation 1 from the EPA once available will provide a mechanism to adjust this approach, if warranted.

Recommendation 4 – State Cross Subsidisation

It is recommended that the NSW Government write to the other States and inform them they will cut supply and/or charge interconnector transmission fees if there is found to be cross subsidisation or roorting via the NEM as a result of either the Federal LRET scheme or other State based electricity programs.

States should be able to support each other in times of need or unusual circumstances; however it is inappropriate for others to use this neighbourly approach as a mechanism to benefit financially or politically.

The evidence in recommendation 1 from the EPA will provide further ongoing support for this approach

Recommendation 5 – Encourage New Low Emission Base Load Generation.

Reduction of GHG CO2 emissions can only meaningfully happen if the efficiency of the fleet of base load generators is improved. This can happen through the building of new High Efficiency Low Emission (HELE) coal plants and or the construction of Nuclear Power Plants. To encourage the building of new low emission generators in NSW it is recommended that the NSW government offer, with regard to its own electricity usage, to enter into Power Purchasing Agreements with the operator of any new low emission generators.

Furthermore that financial support be provided by the State in the planning stages of any new projects with the money being redirected from the savings made under recommendation 3.

The State should offer to facilitate new baseload generators by using its planning powers and also encourage local council support with regard to releasing suitable sites and by engaging in local community support incentive programs.

Recommendation 6 – NSW Government to change Bidding Rules of the National Electricity Market.

Currently the highest bidder sets the price for all other generators. This encourages price gouging especially in times of limited supply/high demand. Simply change the bidding rules so that generators are paid the actual price they bid. This will immediately reduce the wholesale electricity price. In order to access the market all generators must supply a deliverable bid to AEMO, as occurred prior to the introduction of the semi scheduled classification. This will force intermittent generators to team up with guaranteed suppliers and bring greater stability to the system.