

**Submission
No 145**

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

Organisation: NSW Government

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Don Harwin MLC

Minister for Resources, Minister for Energy and Utilities,
Minister for the Arts, Vice-President of the Executive Council

V17/10784

The Hon. Paul Green MLC
Chair, Select Committee on Electricity Supply, Demand and Prices in NSW
Parliament House
Macquarie Street
SYDNEY NSW 2000

Don
Dear Mr Green

The NSW Government welcomes the opportunity to make a submission to the Select Committee on Electricity Supply, Demand and Prices in New South Wales.

The NSW Government recognises the immediate challenges facing households and businesses due to rising electricity prices, and the need to maintain energy security.

With the sudden closure of interstate generators, the national market has moved into a tighter supply and demand balance. Concurrently, the rise in gas prices linked to the development of the export LNG sector has increased the cost of gas-fired generation. Without sufficient time for the market to respond to the closures, gas-fired generation has been required to play a more significant role in generating electricity and hence has raised the price of power.

This has led to significant increases in wholesale prices, which are the key and primary driver of price pressures at this time. To reduce prices, new supply is needed. Projects under construction as part of the Renewable Energy Target are predicted to displace demand for more expensive gas generation, according to the Australian Energy Market Operator (AEMO). Current forward curves forecast this supply contributing to lower prices in years to come.

NSW is well placed in terms of energy supply compared with other states. The 2017 Electricity Statement of Opportunities released by the AEMO confirms this should remain the case for the next five years.

There are enough projects in NSW's pipeline to meet future required energy and capacity needs, so long as appropriate investment conditions exist.

Although NSW has enough supply for now, we are not being complacent. Our national energy markets are undergoing significant transformation and the NSW government is taking steps within its own remit to respond to this challenge. However, energy security and affordability is a national issue and a coordinated national approach is required.

I draw your attention to the following actions as examples of how the NSW government is taking action to improve the security, reliability and affordability.

Action NSW is taking to ensure energy security

The NSW government has also established a NSW Energy Security Taskforce to focus NSW on prioritising energy security, reliability and affordability. The Taskforce released its Initial Report on 22 May 2017, finding that NSW is well-placed in terms of energy security and reliability under normal conditions. However, the Taskforce also reported that, threats can occur such as by the extreme conditions over 8-10 February 2017, during an extreme weather event over a number of states, and with a number of coincidental factors. Quick action by the NSW Government on those days ensured that NSW avoided residential and commercial load-shedding.

The Initial Report made seven recommendations as to how NSW can prepare and be more resilient for any possible energy emergency events over next summer. We are working to the intent of these recommendations to be ready for summer 2017/18.

The Taskforce's Final Report will be received in late 2017 and review NSW's longer-term energy security and include the findings of the Finkel Review.

NSW has partnered with the Australian Renewable Energy Agency (ARENA) to deliver a NSW-specific Demand Response Program. This program is expected to make available around 60 megawatts of demand response in NSW by summer 2017/18 to be activated by AEMO during extreme events. This is expected to rise to around 80 megawatts by the third year of the program.

The NSW government's policy priorities

In the NSW government's submission to the Finkel Review it was noted that the government's priority issues are the maintenance of a secure, affordable, reliable and sustainable NEM through:

- nationally integrating energy and climate policy;
- committing to a nationally harmonised safety and technical framework;
- promoting investment in and accelerating cost reduction of proven technologies;
- ensuring affordability for households and businesses and protecting the vulnerable;
- increasing competition and empowering consumers; and
- developing pilot projects and regulatory sandboxes to ensure new technologies, programs and policies are fast-tracked through thorough testing.

The NSW Government welcome the Finkel Review, and continues to work for national reform of the electricity market through COAG Energy Council. The 49 recommendations of the Finkel Review that have already been adopted by COAG Energy Council will make significant progress in achieving NSW policy priorities. As you would be aware, the Commonwealth has made an alternative proposal to the 50th recommendation which will be considered at COAG Energy Council.

How we're addressing longer term energy security challenges

The NSW government is creating a positive investment environment for new generation through our Energy Security Taskforce, our work with AEMO, the Council of Australian Governments (COAG) Energy Council, and is a strong advocate for electricity market reform through the Finkel Review.

NSW has a strong pipeline of projects in the planning system ready for the right investment and policy settings. It is up to the Commonwealth Government to deliver this policy certainty. As at September 2017 over 1,000 megawatts of clean energy projects were under construction, around 3,600 megawatts had development approval, and around 6,600 megawatts were seeking approval through the planning system.

This pipeline reflects the government's success in delivering on the Renewable Energy Action Plan, which was released in 2013 to increase clean energy at least cost to energy consumers and with maximum benefits for the state. The portion of clean energy has roughly doubled to 19.6% over the last five years in NSW.

Added to this, there are three development approved gas generation projects totalling over 2,000 megawatts in NSW and feasibility work being undertaken at the national level to potentially expand the Snowy Hydro Scheme by 2,000 megawatts.

These projects demonstrate where the market sees the most appropriate mix of technologies moving in the coming years, both in delivering the required volume of energy as well as meeting demand at any given point. NSW's approach is technology-neutral, however it is up to the private sector to advance projects.

NSW is the national leader in large-scale solar energy, with regional NSW hosting Australia's three largest operational solar farms at Nyngan, Broken Hill and Moree. These projects have successfully demonstrated the operation of large scale solar in NSW and helped to develop supply chains that will bring down the cost of future developments, such as the six new solar farms that are currently under construction across the state.

And over 380,000 NSW households have installed rooftop solar panels, the majority of which were installed without a subsidised feed-in tariff. These will play a greater role in providing secure power into the future as battery technology develops.

The NSW government has also established a NSW Gas Plan which sets out a clear, strategic framework to deliver best practice regulation of the gas industry.

Government support for households and businesses

The NSW government recognises the impact that higher energy prices are having on NSW residents and particularly the most vulnerable. To address these impacts the government announced the \$112.5 million NSW Energy Affordability Package on 3 September 2017.

The NSW government announced actions to help ease the cost of living pressure on vulnerable households by increasing assistance measures by around 20 per cent. Under this package, the low income household rebate increased by \$50 per year to \$285 and the Family Energy Rebate by \$30 per year to \$180. This will help about 900,000 households.

This package will help households and small businesses. A household could upgrade to energy efficient lighting and air conditioning, saving up to \$500 per household per year. And small businesses will also be able to access discounts on energy efficient equipment as well as obtain energy management training. Combined with other measures, this could save them up to \$1,900 on yearly energy bills.

NSW is the national leader in energy efficiency, and continues to expand these programs in order to help households and businesses save energy and money.

The NSW government also has financial and technical assistance programs that can help businesses respond to rising energy prices. These include:

- the Energy Savings Scheme (ESS) - helps businesses target, prioritise and implement the best energy efficiency opportunities for their business.
- the Energy Saver Program - offers subsidised energy investigations and training as well as project, financial and technical support.
- the Business Connect program - offers general and specialist business advisory services for small and medium sized businesses.

Action to put downward pressure on electricity prices

NSW has taken action on the other main component of bills – network costs. The NSW government has given a price guarantee which requires network prices to be lower in 2019 than they were in 2014. This price guarantee is being overseen by the NSW Electricity Price Commissioner, Professor Allan Fels and has resulted in network prices being approximately 3 per cent lower for the average residential customer this financial year.

The NSW government has also tasked the Independent Pricing and Regulatory Tribunal (IPART) to closely monitor and report annually on the performance and competitiveness of the NSW electricity and gas markets. This will also include energy retailers to make sure that consumers are being treated fairly.

IPART's monitoring shows that there is growing choice in electricity and gas providers and offers, with opportunities for consumers to save by switching from higher-priced standing offers. This shows the benefits of deregulation, which has encouraged discounting by retailers in order to attract new customers. Re-regulation could put at risk the benefits that IPART has identified, and erode the opportunity for consumers to make savings and find a deal more suited to their particular needs.

IPART found that the key factor driving higher prices was the cost of wholesale energy, not deregulation or private sector participation in the market. This is, as

outlined above, due to national market factors that need national market solutions, for which NSW is a tireless advocate at COAG Energy Council.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Don Harwin', with a horizontal line underneath the name.

Don Harwin MLC

Leader of the Government in the Legislative Council

Minister for Resources

Minister for Energy and Utilities

Minister for the Arts

Vice-President of the Executive Council

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