

**Submission
No 231**

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

Name: Mr Mark Zanker

Date received: 10 November 2017

**The Inquiry Secretary
Legislative Council Select Committee on Electricity Supply, Demand and Prices in New
South Wales**

I make this submission to the Committee in my private capacity. My name is Mark Zanker, and I reside at . I may be contacted on or by email at

I have for a long time been concerned about massively increasing electricity prices. Last year, I was advised by my electricity retailer that my electricity bill would rise by approximately \$11 per month starting from 1 July 2016, because of changes in charges able to be made by electricity distributors such as Essential Energy. So my annual bill would increase by about \$572 for the financial year.

Poles and wires providers have been a significant driver of rapidly escalating costs

I have read the Australian Energy Regulator's revenue determination for the electricity sector for the period 2024 to 2019 much of which I didn't understand. I also read projections made by that agency that ordinary households should have a decrease of about \$500 in their bills.

There seem to be a lot of falsehoods put about by politicians and regulatory agencies about the issue of electricity pricing. Electricity prices have increased enormously in recent years. We were promised, for example by the Federal Government that the abolition of the carbon tax would reduce household bills by about \$500 per annum. This was false - bills increased, not decreased. Disgracefully, the NSW Government made it mandatory for electricity bills to peddle this falsehood, by making it a legislative requirement that bills should include a statement to the effect that the NSW Independent Pricing and Regulatory Tribunal had estimated that power bills would decrease by \$500 if the carbon tax was abolished - this was Nazi Germany style propaganda provided for by legislation, slipped in by a cynical minister who had power to amend the provisions of the electricity legislation by statutory instrument. The AER claimed that its determination should reduce household electricity prices by a similar amount - this too was false, certainly for last financial year as well as the current financial year. If the effect of the AER determination is to allow a 15% increase in annual revenue for distributors of electricity for the 2016-17 financial year and for out years to 2018-19, I cannot see how this could lead to a decrease in prices paid by consumers in any way, shape or form. Retailers tend to pass onto consumers any increases in their own costs, in this case distribution costs.

Unsatisfactory responses by Government to legitimate inquiries seeking information

In 2016, I wrote via my then local member to the Industry Minister Roberts asking for an explanation for rising prices. I received in response a nonsensical letter, a copy of which I attach, giving me all sorts of information about matters of which I was already fully aware, and which patronisingly suggested that I should shop around and invest in new technology.

On the shopping around point I had done that. I wanted a retailer who could guarantee that they were green energy providers, and it turned out that Powershop was the best choice for me. The notion that I should be able to get a good deal in a competitive retail market however is nonsensical in an area such as the south west slopes of NSW where there is only one poles and wires supplier, namely Essential Energy, which is a NSW Government owned monopoly. It is regulated as if it were operating in a competitive market, the fallacious basis on which the electricity sector is regulated. I believe that Essential Energy is used as a cash cow by the NSW Government, because its high profitability suits the objectives of the NSW Treasury. No doubt some politicians will continue to think that it ought to be privatised - a disastrous economic policy that converts public utilities into gouging private sector monopolies, as in the case of the Land Titles office franchise in NSW.

It was suggested by the Minister that I get a smart meter, for example. In Victoria, smart meters were rolled out under a government program that mandated their use by electricity suppliers. In NSW, the smart idea was that the meters would be available from retailers, because this would promote competition in the market. The retailers, as far as I can tell are all providing smart meters free of charge. I accordingly approached Powershop to have a conversion done, but they refused to do so because the electrical powerboard at my block of units consists of four meters, in two banks. There is a single isolation switch for two meters. Before Powershop would proceed, they advised me I needed to have the powerboard modified so that there was a separate isolation switch for the meter relating to my unit. This work must be done by a level 2 accredited electrical services provider in NSW. However, in Cootamundra where I live there are no level 2 accredited service providers - these are located in other towns such as Young and Temora. The several whom I contacted asking them to do this work simply were not interested in doing it and refused to provide me with quotes. This could not have happened under the Victorian roll out of smart meters because it was for the poles and wires distributors who were responsible, and they themselves have all the personnel capable of carrying out the work. So much then for investing in new technology.

The Electricity Market Rules - seriously flawed

Given the completely unsatisfactory response to my inquiries by the NSW Minister, I had to try another angle, and so I wrote to the Energy Market Regulator to ask how it was that we were seeing such dramatic increases in energy prices. I attach a copy of that correspondence for the information of the Committee.

The Electricity Market Rules are promulgated by the Australian Energy Market Commission, a statutory authority whose function is to promulgate such rules. These occupy a volume of over 1500 pages of legislative materials divided up into 11 chapters dealing with registration and approval of participants, metering, spot price bidding and a whole raft of other matters. Anyone suffering insomnia can throw away their sleeping pill medication and instantly achieve slumber by downloading this material from the AEMC website (aemc.gov.au) and trying to read through it when they go to bed for the night.

Chapter 6 dealing with economic regulation of distribution services is the area in relation to which the most disputation occurs between the regulators and the industry participants arises because that is about the money issues. The Australian Energy Regulator (AER) made determinations about recoverable revenue over regulated period of 5 years that involved making determinations on the basis of material provided by industry that included many thousands of words, graphs, econometric analysis, consultants reports and the like, on issues such as the regulated asset base, the depreciated optimised replacement costs for networks and the like. These determinations made in 2014 for the period out to 2019 - the five year regulatory period - were appealed by the network service providers to the Competition Tribunal which overturned the AERs determinations and remitted them to be revised in accordance with the Tribunal's reasons for decision. This decision of the Tribunal was delivered in February 2016. The AER in turn appealed to the Federal Court in October of 2016 under administrative law decisions legislation and the court gave its judgment on 24 May 2017, some 6 months after the hearing of the appeal. It is easy to understand why it took such a long time for the Federal Court to come to the decision it did because it had a mountain of evidentiary material to consider, as well as the determinations of the AER and the reasons for decision of the Tribunal, against the comparatively simple criteria against which the correctness or otherwise as a matter of law administrative decision are assessed.

So here it is in late 2017 and the revenue recovery determination for the period out to 2019 has not yet been settled because of these disputes over its validity. This suggests to me that the regulatory system is seriously flawed and designed to favour the energy producers and distributors, not to ensure fair outcomes for consumers.

We often hear in the media complaints by business interests about red tape and regulatory requirements hindering the efficient conduct of business. In the case of the electricity distribution industry however, the complexity of the regulatory system is to the advantage of industry, because it enables them to bombard the regulator with an overwhelming amount of material that requires detailed consideration by the regulator that the regulator simply lacks the resources to deal with. In those circumstances, appeals against determinations by the AER are encouraged, because to adequately defend their original decisions they have to deploy their resources in justifying every single aspect of each decision that is made as a matter of law. If they fail to do so of course, they lose the case they are defending and are mulcted in legal costs, which can amount to millions of dollars in cases involving the Competition Tribunal and the Full Bench of the Federal Court. This means that the regulator's resources are even further depleted and in a context where tight budgetary constraints are imposed by government, it invariably leads to a failure in appropriate regulation. I find it disgraceful that the NSW Government acquiesced in Essential Energy's decision to spend millions of dollars in pursuing this litigation, and it tells me governments are completely out of touch with reality and of the impact these sorts of wasteful disputes have on the community more broadly.

One then must ask whether this sort of regulatory model is the correct model to use in the electricity market, where the regulator is staffed by economists and accountants and where the only real value is the profitability of the distributors, and only lip service is paid to public and social good considerations.

Consider for a moment another area of activity where a statutory authority promulgates subordinate legislation for the regulation of industry - civil aviation where in this country, the Civil Aviation Safety Authority staffed as it is by people with expertise in aeronautics, engineering, physics, metallurgy and the like are responsible for the regulatory regime. Understandably, the values underlying this regulatory system have nothing to do with the profitability of aircraft operators or manufacturers, rather with the safety of the travelling public and those on the ground that could be exposed to serious injury, death or property damage by the operation of a defective aircraft in flight. Were it otherwise, there would be serious public disaffection with the regulatory regime.

In the case of electricity there are obviously public good concerns such as avoidance of bush fire risks from arcing events caused during summer periods from high winds, and also avoidance of network collapse as occurred in South Australia in 2016 owing to severe weather - tornadoes blowing down high voltage transmission lines as well as other failures in the distribution system such as interconnector failure. Now if the network investment has been so good under this market system, one must ask how it is that such major infrastructure failed? I believe this is because of lack of sensible investment in the system, notwithstanding that the revenue return regime and the so called investment incentives referred to in the electricity rules provide for. What has really happened - there has been price gouging and skyrocketing profitability for network service providers at the expense of public good.

In the political scramble to attribute blame for the South Australian power failure last year, attention was focussed on matters that have no bearing whatsoever on the integrity and robustness of the distribution network - the source of generation be it coal, gas, solar wind or biomass. The failure of the distribution network is just that, and has nothing whatever to do with the generation fuel of the energy that it transmits.

In a complicated, opaque regulatory regime it is very easy for citizens to be misled, and it is very easy for politicians and vested interests who finance them to give dishonest information to the public, which is exactly what occurred.

The sort of regulatory regime that is devolved to technical experts as in the case of civil aviation is entirely inappropriate in a case where profitability as determined by economists and accountants is the only real criterion for price setting, and where public good regulation in relation to fire safety,

vegetation management, structural integrity, corporate taxation and related costs are able to be offset or compensated in the revenue recovery mechanism.

Energy policy - mostly absent or atavistic

There has been nothing so disgraceful as the politicisation of energy policy that has taken place in this country for at least the last 10 years. The Federal Government inexplicably set out to sabotage the renewable energy sector, by eliminating investment incentives. The Minerals Council of Australia and its associated state level industry associations have pedalled ridiculous lies about "cheap clean coal", ably assisted by scientifically ignorant politicians who frequently transition from ministerial positions in government to lobbyists for or highly paid executives in resource extraction companies.

I cannot imagine that anyone would seriously suggest that railway companies should invest in coal fired locomotives to replace current motive power. Nor do I think people would advocate a return to steam powered traction engines to replace B-Double road vehicles. - but the reverse seems to be true for the electricity sector. It defies understanding how such an absurd outcome has come to pass.

I do not know how it could be that anyone who has visited China, and experienced those frequent days in Shanghai or Beijing of choking particulate pollution requiring that masks be worn outside, and thick smog that restricts visibility could possibly claim that coal is good for humanity.

In my opinion, sensible energy policy is desperately needed in this country, and if the federal government is not going to provide leadership in this area, then it is the bounden duty of state governments to do so - but not by promoting atavistic and scientifically ignorant policies supporting coal fired electricity.

Electricity pricing and energy policy and inextricably linked. And energy policy is also inextricably linked with environmental policy. it is no longer possible, if ever it once was, to construct energy policy on the basis of environmentally destructive use of fossil fuel resources that have produced devastating air pollution and adverse health outcomes in northern hemisphere countries such as China. The significant problem of the exponential increase in carbon dioxide concentrations in the atmosphere cannot be dismissed as a problem that can be dealt with in the future - it is a clear and present existential danger right now.

If government wishes to ensure that our industries and communities are viable into the future, there must be immediate investment in renewable energy, and all policy settings should be directed towards that end. There should be no more dithering, blame shifting and incoherence in these matters - I believe the community understands the serious problems we face and the need for determined and sensible action to be taken to deal with them.



The Hon Anthony Roberts MP
Minister for Industry, Resources and Energy



IM16/18609
MF16/2886

Your reference: 16L105/gf

The Hon Katrina Hodgkinson MP
Member for Cootamundra
PO Box 600
YASS NSW 2582

Dear Ms  Hodgkinson

Thank you for your representation of 30 June 2016 on behalf of Mr Mark Zanker of
, concerning electricity prices in NSW.

Increases in electricity prices are a serious concern for the NSW Government. Since 2011, the NSW Government has worked to place downward pressure on electricity prices to benefit consumers.

The increases are mostly due to higher costs associated with purchasing electricity from the wholesale market along with some increase in costs for complying with the Renewable Energy Target. The wholesale electricity market is an open, competitive market and the NSW Government does not participate in, or control, this market.

I wrote to the Independent Pricing and Regulatory Tribunal (IPART) requesting that it looks into the drivers of recent retail price increases to ensure these market developments are consistent with a competitive market. I also requested that IPART carefully considers whether a special review might be required. Further information on IPART's market monitoring review is available at www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Retail_electricity_market_monitoring_2016.

In 2014, we deregulated retail electricity prices, which resulted in greater competition in NSW. There are now 24 electricity retailers in NSW, offering a wider range of deals and choices for consumers. This means, depending on Mr Zanker's circumstances, he could save around \$250 on his electricity bills if he shops around.

Through our reform of the network businesses (which transport the energy to homes), we have also placed downward pressure on networks costs, which make up around 50 per cent of an electricity bill. Network costs are generally moving in line with the Consumer Price Index, and therefore are not significant contributors to the current price changes. This contrasts with previous years when electricity price increases were largely the result of higher network costs.

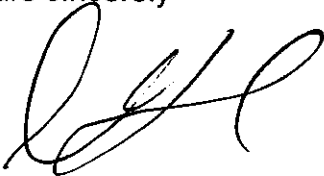
We recognise that consumers may be interested in finding additional ways to lower energy consumption or save on electricity bills. There are four key things Mr Zanker might like to consider:

- **Shop around to find a more affordable and suitable deal on electricity.** Mr Zanker can contact his retailer to find out if he can be offered a better deal, or compare all the offers available in his area at www.energymadeeasy.gov.au or by calling the Australian Energy Regulator Infoline on 1300 585 165.
- **Access financial assistance.** Mr Zanker could be eligible for an energy rebate to help him pay his bills. He can find out more from his retailer or Service NSW on 13 77 88.
- **Make changes around the home to improve energy efficiency.** Small changes like turning off appliances at the wall when not in use could save money.
- **Try new technologies.** Technologies like smart meters can help Mr Zanker monitor and plan his energy use to take advantage of cheaper electricity prices throughout the day.

Please see the attached fact sheets for more information on each of the above to help Mr Zanker to determine which, if any, may suit his individual needs.

Thank you for bringing this matter to my attention. I trust that this information is of assistance to you in responding to Mr Zanker.

Yours sincerely

A handwritten signature in black ink, appearing to read 'AR', written in a cursive style.

Anthony Roberts MP
Minister for Industry, Resources and Energy

Encl.

From: AER Inquiry aer.nquiry@aer.gov.au
Subject: RE: TRIM: Matter No 2260465 - Electricity Network Pricing - Essential Energy [SEC=UNCLASSIFIED]
Date: 11 August 2016 at 12:03 PM
To:
Cc: AER Inquiry aer.nquiry@aer.gov.au

AI

Dear Mr Zanker,

Thank you for your email, we apologise for the late reply.

The Australian Energy Regulator (AER) is Australia's national energy market regulator. Our functions are set out in the national energy legislation and rules, which include the National Electricity Law, the National Gas Law and the National Energy Retail Law and mostly relate to electricity and gas markets in its eastern and southern Australia. The AER is responsible for the economic regulation of electricity and gas transmission and distribution service providers; monitoring compliance with the national energy legislation and rules; and enforcing the national electricity legislation and rules. The AER has an independent Board and shares staff, resources and facilities with the ACCC.

With regard to your inquiry, there are a few components of the AER's determination for Essential Energy for 2014-19, and the subsequent pricing impact. I'll go through the following components of your electricity bill:

- The AER's determination for Essential Energy, which determines Essential Energy's maximum annual revenue allowances out to 2019.
- The AER's annual pricing decisions
- The other components of your electricity bill – transmission charges, wholesale charges and retail charges.

The AER's revenue determination for Essential Energy 2014-19

It appears you have had a read through part of our Final Decision for Essential Energy, I'll refer here to the Overview document. <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/essential-energy-determination-2014-19/final-decision>

The purpose of the Final Decision revenue determinations is to determine the maximum allowed revenue the electricity distribution and transmission network providers (network providers) can recover from its customers for the next five years.

Our Final Decision was that Essential Energy can recover \$3826.1 million from consumers over the 2014–19 regulatory control period. You can see from the graph on page 8 of the overview, that this amounts to a reduction to the annual allowances that Essential Energy can recover from its customers, relative to its annual allowances in the 2009–2014 period. We also recognise, as evident in this graph, that Essential Energy has received steady revenue increases for about a decade, which has clear implications on customers electricity bills. As per the overview (page 10 onward), we made reductions to Essential Energy's future allowances as its cost pressures, in our view, will fall over the five years.

In the overview, we estimated the pricing impact for customers (households and small businesses), which would result in electricity price reductions in both 2014–15 and 2015–16, and rising modestly in the years after. (See pages 8 and 9 of the overview). The price reductions we estimated were based on the assumption that our Final Decision would not be appealed. The electricity rules allow the network providers we regulate to appeal parts of our Final Decisions to the Australian Competition Tribunal for reconsideration, if the network provider considers we have made clear errors in our decisions.

The NSW electricity distribution network providers (Ausgrid, Endeavour Energy and Essential Energy) appealed a number of parts of our Final Decisions. The Tribunal released its decision in March this year, and found in favour of the network providers on a number of matters.
<http://www.judgments.fedcourt.gov.au/judgments/Judgments/tribunals/acompt/2016/2016acompt0001>

For each of these parts, the Tribunal told us to redo our Final Decision with regard to the direction it provided. We reviewed the Tribunal's reasoning in its decision and have appealed the Tribunal decision to the Full Federal Court, which will hear our case in November.

In response to your inquiry, these developments mean that there is some uncertainty on what the pricing impact of our determination will be out to 2019, because our Final Decision is subject to the outcome of the Full Federal Court appeal. One outcome is that the Federal Court finds in our favour, this would have the effect of ensuring only modest price increases (less than the rate of inflation) out to 2018–19. Alternatively, if the Court finds in the network providers favour, then we will have to redo our Final Decisions following the Tribunal's directions. If this is the outcome, then the revenue Essential Energy can recover over the remainder of the 2014–19 regulatory control period will be increased in line with redone Final Decisions.

The AER's approval of annual pricing proposals

The AER approves annual pricing proposals for each electricity distribution network provider. The pricing proposals must be compliant with our Final Decisions and the requirements of the National Electricity Rules. Our role in this process is to assess the annual pricing proposals for compliance. The pricing proposals include the network tariffs the distribution network service provider can charge retailers. The network tariffs (NUoS) for Essential Energy consist of distribution use of system (DUoS) charges for the recovery of distribution network providers revenues, the pass through of transmission use of system (TUoS) charges for the recovery of the transmission network providers revenues and any charges to recover jurisdictional scheme amounts including the NSW Climate Change Fund (CCF) and the Queensland Solar Bonus Scheme (QSS).

amounts including the NSW Climate Change Fund (CCF) and the Queensland Solar Bonus Scheme (QBS).

For 2015-16, Essential Energy proposed an average decrease in their network charges of 28.6 per cent, including a DUoS tariff decrease of 37.13 per cent, in line with the revenue allowance the as per our Final Decision for that year (see Essential Energy's pricing proposal, pp. 10, 12).
<http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/essential-energy-annual-pricing-proposal-2015-16>.

In its pricing proposal, Essential Energy noted its concern that the revenue allowance for that year is not sufficient for it to safely operate and maintain its network. It noted that the initial prices for 2015-16 are interim as the AER's Final Decision was subject to merits review (i.e. being considered by the Tribunal at the time). Regardless, if your electricity retailer passed on the lower network charges, you should have been charged less for your electricity consumption in 2015-16.

For 2016-17, Essential Energy proposed increases in network charges of 3.6 per cent on average, including DUoS increases of 10.3 per cent. Essential Energy's 2016-17 pricing proposal was compliant with an Enforceable Undertaking offered to the AER. This is because in February 2016 the Australian Competition Tribunal set aside the AER's May 2015 distribution determination decision for Essential Energy. On 16 May 2016 the AER formally accepted Essential Energy's undertaking. The undertaking will expire 30 June 2017. <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/essential-energy-annual-pricing-2016-17>

A breakdown of the 2016-17 increases in Essential Energy's network charges are on pages 9 and 10 of its pricing proposal. <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/pricing-proposals-tariffs/essential-energy-annual-pricing-2016-17>).

The approximately \$11 per month increase in charges from 1 July 2016 that you refer to, is due to the Essential Energy's network pricing proposal for 2016-17, which allows it to recover a higher revenue allowance for this year. We again note that you should have received a significant decrease in your electricity charges in 2015-16, if your retailer passed the savings onto you.

Other components of your bill

We note in our Final Decision that distribution charges represent approximately 43 per cent, on average, of the annual electricity bill for Essential Energy customers.

Electricity charges paid by customers are made up of a number of costs components:

- Wholesale costs – the cost of generating electricity at a power station. For more information, see the Australian Energy Market Operator's (AEMO) website: <http://www.aemo.com.au>
- Network (transportation) costs – the AER regulates electricity network businesses, by forecasting the revenue requirements of a network business to cover its efficient costs and provide a commercial return on capital. This is then passed on through the price that the network business charges. Note that this includes electricity distribution costs (Essential Energy) and transmission costs (TransGrid). See below for more information.
- Retail services costs – for example, the retailer's costs for connecting new customers, billing customers and managing customer accounts
- Government green scheme costs – the costs associated with government programs to support the development of renewable energy

Retailers add up these cost components and pass them on to their customers. Any increase in the retail price that customers see on their bills may be due to changes in the cost of more than one of these different components. For more information, please see: http://www.aer.gov.au/system/files/About%20energy%20bills_2.pdf

I hope this information is of assistance.

Kind regards,

Cameron
AER Inquiry

-----Original Message-----

From:

Sent: Friday, 29 July 2016 2:41 PM

To: AER Inquiry

Subject: TRIM: Matter No 2260465 - Electricity Network Pricing - Essential Energy

Good afternoon

I was advised by my electricity retailer that my electricity bill would rise by approximately \$11 per month starting from 1 July 2016, because of changes in charges able to be made by electricity distributors such as Essential Energy. So my annual bill will increase by about \$572 this financial year. I have read your determination, much of which I didn't understand. I also read projections that you made that ordinary households should have a decrease of about \$500 in their bills. There seem to be a lot of falsehoods put about by politicians and regulatory agencies such as yourselves about the issue of electricity pricing. Electricity prices have increased enormously in recent years. We were promised, for example by the Federal

Government that the abolition of the carbon tax would reduce household bills by about \$500 per annum. This was false - bills increased, not decreased. You say that your determination should reduce household electricity prices by a similar amount - this too is false, certainly for this financial year.

If the effect of your determination is to allow a 15% increase in annual revenue for distributors of electricity for the 2016-17 financial year and for out years to 2018-19, could you explain to me how this could lead to a decrease in prices paid by consumers in any way, shape or form. Retailers tend to pass onto consumers any increases in their own costs, in this case distribution costs.

I have been attempting to seek a credible explanation of the massive increases in electricity prices from various sources and have so far not received any such credible explanation. Official propaganda always states that prices will reduce, but that has not happened on any of the occasions that it has been claimed that it would and is clearly not happening now. I would just like to have a readily intelligible statement of what the actual effect of your determination is likely to be over the years out to 2019, on the assumption that all cost increases are likely to be passed on by retailers to consumers. You must have data that shows how much prices have increased over recent years, despite assurances that there would be no increases and there would in fact be reductions. Maybe out there in electricity land the word "reduction" now means "increase". I think a person could be forgiven for thinking so.

Mark A Zanker

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