

**SPEECH**



**THE HON JOSH FRYDENBERG MP**

Minister for the Environment and Energy

***ECA Foresighting Forum Opening Address***

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**Aerial Conference Centre, University of Technology Sydney,  
235 Jones St, Ultimo**

## **Introduction**

Ms Sinclair, ladies and gentlemen, good morning.

I begin by acknowledging the traditional custodians of the land we meet on today, the Gadigal people, and pay my respects to their Elders past and present.

It is a pleasure to be here today with you to open your discussions about the future of our energy market.

First let me thank ECA, and its CEO Rosemary Sinclair, for bringing us all together to discuss the central role of consumers in making change happen in our energy markets.

This morning I'd like to quickly touch on how reform of Australia's energy market has fared to date, the challenges that have arisen and where we need to do better for consumers, and the action the Australian Government is taking to address these challenges.

### **How is our energy market changing and how is that affecting consumers?**

Given what's been happening in recent weeks, I don't have to tell you that the energy market is undergoing significant change driven by a range of factors including technology, changing demand and consumer preferences.

We are moving from a system with large remote base-load coal generators providing the bulk of our power to a more a dynamic system and energy mix with renewable energy sources — particularly wind and solar PV — now a significant source of electricity.

In 2016, around 5 per cent of Australia's national electricity generation came from wind, and over 2 per cent was from solar – but the proportion varies significantly by region. In South Australia 41 per cent of electricity generation came from wind and solar last year.

The transition presents new opportunities. But as we have seen, it also presents significant challenges that must be managed carefully.

A number of extraordinary events over the past year have demonstrated the magnitude of these challenges.

Just over a year ago the Basslink cable between the mainland and Tasmania went down and stayed down for six months. At the time Tasmania was relying on imported power due to low dam levels, and had to take emergency action to ensure people had power, while industry had to curtail operations.

In mid-2016, we saw wholesale prices spike to extraordinary levels in South Australia. Again, a key piece of infrastructure was down: in this case the Heywood Interconnector, although this time it was part of a scheduled upgrade.

It also coincided with cold winter temperatures, calm weather and high gas prices.

The wholesale electricity price of electricity hit around \$14,000 per megawatt hour.

Compare that to an average wholesale electricity price of only \$50 per megawatt hour in the eastern states.

A few months later, South Australia went black. It was the first state-wide outage in the history of the NEM. We saw gridlock on the roads, and 1.7 million people without power.

And again this month we saw 90,000 South Australian households and businesses go without power.

The issues plaguing South Australia's system are a timely wake up call for us all. We must do everything we can to make sure the transition to a lower emissions economy does not involve compromising the reliability, affordability or safety of our energy system.

### **And consumers?**

While the sector grapples with these technological and system challenges, it would be a mistake to think consumers don't have a role to play. They are now at the centre of the challenges. They rightly expect reliable and secure energy supply. And they want options for lowering their power bills.

The consumer experience is also being shaped by two major shifts in the market.

The first is the extraordinary growth in the range of options available to consumers including distributed generation—for example rooftop solar. Consumers are no longer destined to be passive participants in the market – rather they can and are actively participating.

The second, is the increase in energy costs we have seen in recent times – with only an all too brief respite thanks largely to the repeal of the carbon tax. But while energy costs have risen, it is important to note that so to has the scope for consumers to more actively manage their energy use and keep their total energy bills down.

Importantly we are seeing many consumers taking advantage of the transition — seeking out energy options that best suit their needs and circumstances and minimises their costs. This could be as simple as changing their retail plan, or might involve them investing in solar PV, storage, or energy productivity measures.

But research by the Australian Energy Market Commission has found that many other consumers are not engaging with the market — in fact some consumers are foregoing annual savings of up to \$270 by not doing so.

Why is that?

### **Challenges for the market and consumers as we undergo this transition?**

This can equally apply to energy choices.

Consumer research like the ECA's recent consumer sentiment<sup>1</sup> survey gives us a glimpse of what consumers really care about, and not surprisingly, affordability and reliability are right up there.

On average half the consumers in competitive markets have never changed supplier, excepting Victoria.

Over 50 per cent of customers do not feel that they currently get value for money from their electricity retailer, even though more than 70 per cent are satisfied with the reliability of their supply.

And few consumers think the market will not provide better value for money in the next five years.

Other ECA research shows consumers are interested in new technologies to control their bills and reduce their dependence on the grid.

And almost all consumers with solar—a whopping 92 per cent—said they installed solar to reduce their energy bills and more than three quarters said they installed solar to become less dependent on the grid.

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<sup>1</sup> <http://www.energyconsumersaustralia.com.au/documents/Energy-Consumer-Sentiment-Survey-Findings-National-Dec2016.pdf>

Understanding what drives consumers matters. The Energy Networks Association Transformation Roadmap shows that if we can effectively transition to a market where proactive consumers are encouraged to use their investment in storage and solar PV to support more efficient network outcomes, everyone benefits.

Clearly empowering choice is important – but what should be done?

It probably won't surprise you to hear my view that regulation should not be the first answer, particularly considering the strong safety net already in place.

But we need to ensure the market settings provide consumers with the right price signals and allow consumers choice; that barriers faced by consumers are addressed; and that consumers have easy access to the right information to make the best choices for them.

Collaboration will be critical if we are to remove barriers to consumer access to data and achieve effective roll-out of cost-reflective pricing. Industry should be able to address these issues without the heavy hand of government coming into play.

### **What is the Government doing?**

All consumers, industry and households alike, need to be confident they are paying no more than necessary for energy that is safe, reliable and secure.

The Government is already taking steps to:

- maintain energy security, with the Finkel review now well under way.
- put downward pressure on prices by reforming gas markets and network regulation, and
- helping unlock consumer choice through ongoing market reforms and through progressing the Government's National Energy Productivity Plan.

### **Finkel review**

In the immediate aftermath of the South Australian blackout, I convened an emergency session of the COAG Energy Council. With my state and territory colleagues, we commissioned an independent review into the future security of the National Electricity Market, to be undertaken by the Chief Scientist, Dr Alan Finkel.

You will hear more about this process tomorrow from one of the expert panellists, Chloe Munroe. But I would note the preliminary report highlights the important role consumers have in driving change and the need to ensure we get the incentives right.

Ministers are already taking steps on the back of the preliminary report released in December, and are accelerating consideration of important proof-of-concept projects to demonstrate the viability of technologies like large scale storage.

In addition, ARENA and the Clean Energy Finance Corporation recently announced a new \$20 million funding round for large-scale storage and other flexible capacity projects, including pumped hydro, following a request from the Prime Minister.

A key challenge for policymakers, off the back of this report, will be making sure the entry of new technologies into the grid in the coming years is carefully managed, to deliver reliable and affordable energy, and support system security.

### **Gas market reforms and Limited Merits Regime Review**

As Chair of the COAG Energy Council, I am also pursuing a reform agenda to make energy more affordable.

At our most recent meeting in December, Ministers agreed a package of reforms that will lower gas transport costs by mandating greater disclosure and transparency for gas pipeline services and pricing. We have also agreed to introduce mandatory commercial arbitration in the regulated gas pipeline sector.

These are important reforms. They will put downward pressure on gas prices noting transportation accounts for up to 15 per cent of the price of gas.

It would be difficult, if not impossible, to keep electricity prices down without controlling network costs which make up around half the typical bill.

The COAG Energy Council has also agreed to reforms that will significantly constrain the ability of regulated electricity and network businesses to seek higher revenues through the Limited Merits Review regime and place a greater focus on the interests of consumers. These reforms will be finalised shortly.

## **Unlocking consumer choice**

### Energy market transformation

Building on the more than [1.6 million households] with solar PV, the uptake of battery storage is increasing. At least 6,750 battery storage systems were installed in 2016, up from around 500 in 2015, and some are predicting that this figure will triple this year to 20,250 installations.

That is why the COAG Energy Council, through its Energy Market Transformation work program:

- ensuring consumer protections available to customers when they invest in ‘behind-the-meter’ technologies are sufficient;
- considering what are the appropriate standards for distributed battery storage
- ensuring arrangements support competition in new products and services that provide support services to network businesses; and
- exploring how network regulation might need to change as customers adopt more distributed energy resources.

Importantly, 2017 will also see the start of important reforms to network prices and metering. The cost reflective signals these reforms provide will help guide efficient investments in new technologies, and should lead to the development of new innovative tariffs and other products and services, for consumers to choose from.

### The National Energy Productivity Plan (NEPP)

In addition the Government is also taking action to ensure we get more value from the energy we use through its National Energy Productivity Plan. The NEPP is a framework agreed by the COAG Energy Council to improve Australia’s energy productivity by 40 per cent between 2015 and 2030.

And I’m pleased to say the NEPP is on track.

By improving our energy productivity the NEPP will help consumers manage their energy bills, reduce Australia’s greenhouse gas emissions, and support economic growth.

To date, the Australian Government has committed around \$10 million to support the NEPP, including a \$2 million grant to the Energy Consumers Australia to lead research on consumer decision-making.

This three-year research project, called 'Power Shift', should guide the development of tools to help consumers manage their energy bills and make energy choices easier, particularly for vulnerable consumers.

## **Conclusion**

In conclusion, I want to ensure you that the Government is committed to a national reform agenda that prioritises energy security and affordability – the factors that consumers care about most.

The Finkel review and the review of climate change policies—both of which are under way—will set a clear, long-term strategy for ensuring that in the transition to a lower emissions economy, we are only paying as much as necessary for safe, reliable and secure energy supply.

Thank you for the opportunity to join you today. In closing I want to wish you all fruitful discussions today that will support the long-term interests of consumers into the future.

