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# Australia's energy market is on the rebound



Focusing on the supply side is only one part of the power bill story. James Alcock

by Josh Frydenberg

Australia's energy market is on the rebound

Power prices are still too high. This hurts households and businesses alike. There is good news, however, that a record wave of 6000 megawatts of new generation is coming online, putting downward pressure on prices.

Alinta cut its power prices by around 3 per cent in January and last week Powershop followed with a 5 per cent cut worth \$70 a year to customers.

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There are further falls to come with the ASX futures market for 2018 New South Wales electricity contracts down 26 per cent from last year and a further fall priced in for 2019. The forward curve for Queensland, Victoria and South Australia shows similar falls.



Power prices are falling, but there's still a lot of work to be done. Alex Ellinghausen

There are also positive signs in the spot and contract markets for gas, following the Prime Minister's intervention late last year. An additional 70 petajoules of gas which would have otherwise gone offshore has made its way to the domestic market, with the ACCC reporting contract prices for large customers falling by up to 50 per cent.

Some major users like New Century's zinc mine near Mt Isa have capitalised on better market conditions, striking a \$100 million four-year gas supply contract with Santos.

## Evidence-based approach

But when it comes to gas production, Queensland is doing too much of the heavy lifting. With the Gippsland Basin in decline and the ACCC estimating the costs of transport from north to south at more than \$2 a gigajoule, Victoria in particular has a responsibility to adopt a scientific, evidence-based approach to develop its 40 years' worth of conventional and unconventional onshore gas resource to create more jobs and investment.

In addition to increasing supply, the Turnbull government is undertaking, with the support of the states, the most significant pipeline reforms in more than two decades. Bulletin boards, secondary trading and compulsory arbitration is creating more transparency and competition, helping to reduce prices.

The implementation of the National Energy Guarantee will also have a significant impact on the wholesale market. By integrating for the first time energy and climate policy, we will have a mechanism that will bring more certainty for investment and at the same time put a premium on reliability which is needed to address the volatility plaguing South Australian and Victoria.

Alarming, so far in 2017-2018 prices have spiked above \$5000 a MWh nine times in South Australia and six times in Victoria, but nowhere else in the National Electricity Market.

The Commonwealth's investment in Snowy 2.0, pumped hydro in the Upper Spencer Gulf, a solar thermal plant in Port Augusta and battery projects across the Yorke Peninsula in South Australia will all help address this volatility.

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Focusing on the supply side is only one part of the power bill story. Increasing energy efficiency to reduce energy usage is an effective demand-side tool being pursued by the Turnbull government. Under the government's National Energy Productivity Plan, designed to boost energy efficiency by 40 per cent by 2030, the government is working on new standards for six different appliances, investing through the Clean Energy Finance Corporation in new energy efficiency projects for the built environment and adopting new standards for commercial buildings.

New standards on appliances have already saved households up to \$220 per year. Consumers benefit from these standards not just in the form of lower power bills but from a more reliable system. For example, Australia's 12.5 million air conditioners, which have tripled in number over the last 20 years, make up 25 per cent of peak demand, the largest single source. By decreasing the amount of power they use, the need for expensive upgrades to generation, distribution and transmission services are avoided.

Network costs are another key driver of higher energy bills. Customers today are paying for poor regulatory decisions to "gold-plate" the network in the expectation of increased electricity demand which never eventuated.

The previous federal Labor government allowed the Limited Merits Review process to run unchecked, costing energy users over \$6 billion. The Turnbull government has now abolished LMR and regulated returns have fallen from their highs of 10 per cent in 2010 to around 6 per cent today.

## Empowering the public

The federal government is also determined to get consumers a better deal from their retailers by simplifying the offerings and empowering the public to more readily compare their options in the market. Since the Prime Minister's meeting with energy retailers last August, more than 800,000 people have gone to the government's website [energymadeeasy.gov.au](http://energymadeeasy.gov.au) to compare their bills and 1.6 million customers have been contacted by their retailers to notify them that they are either on an expired market contract or a more expensive standing offer.

These people are now more readily changing their retailers and contracts, with some 180,000 having moved since last August on to a better deal.

While our work on reforms to wholesale, network and retail markets continues apace, one thing is certain: "disruption" is the byword for energy markets today. We are constantly investing and planning for the application of new technologies be they smart grids, demand response, hydrogen fuel cells as storage or the impact of electric vehicles on the network.

These technologies are already bringing benefits to consumers as AEMO's successful use of demand response this summer shows.

As the federal Energy Minister, I see my role not as one to stop this exciting and dramatic technology-led transition, but rather to effectively manage it to deliver a more affordable, reliable and lower emissions energy future.

*Josh Frydenberg is the Federal Energy and Environment Minister. He is speaking at the [Australian Financial Review Business Summit](#)*

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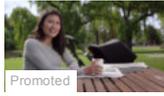


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