

Submission

No 17

INQUIRY INTO THE ECONOMICS OF ENERGY GENERATION

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The Committee Manager
Public Accounts Committee (PAC)
Parliament House
Macquarie St
Sydney NSW 2000

Submitted electronically

Dear Sir/Madam,

Submission on the Inquiry into the Economics of Energy Generation

Origin Energy Limited (Origin) welcomes this opportunity to make a submission to the Public Accounts Committee inquiry into the economics of energy generation.

Origin is a major Australasian integrated energy company focused on gas exploration, production and export, power generation and energy retailing. Listed in the ASX top 20 Origin has over 5,000 employees. Origin is Australia's largest energy retailer servicing 4.5 million electricity, natural gas and LPG customer accounts and has one of the country's largest and most flexible generation portfolios with over 5,500 MW of capacity, through either owned generation or contracted rights. We are a significant investor in low emissions and renewable energy technologies, including gas, geothermal, wind, hydro and solar and are by far the largest retailer of green energy products such as GreenPower.

Origin understands the NSW Governments focus on energy security and the economics of energy generation. A reliable, secure energy supply underpins our modern economy and way of life but cost of living pressures are a major concern for households in NSW. In our view there are three main principles that the NSW Government should be mindful of in developing a sound energy policy framework:

- 1. Energy markets are the best way of attracting investment and minimising costs for consumers;***
- 2. Retail price controls inhibit competition, innovation and investment; and***
- 3. Government intervention is only necessary where there is clear evidence of market failure.***

1. Energy Markets are the best way of attracting investment and minimising costs for consumers.

Since commencement in 1998 the National Electricity Market (NEM) and its precursor the NSW State Electricity Market has been highly successful in attracting investment in electricity generation and providing an efficiently priced and reliable supply to customers. The energy only regional design of the NEM is effective in driving the most efficient investment choices including technology and location.

The NEM also allows for a range of structural responses to risk management such as vertical integration whilst maintaining low barriers to entry and high levels of retail and wholesale competition.

It is imperative that the fundamental design of the NEM is maintained to give investors confidence to make the necessary commitments for new electricity generation investment. NSW will need a range of energy sources to meet future energy requirements. It is neither necessary nor helpful for Governments to pick winners or provide subsidies that favour one technology over another.

A combination of the wholesale price and policy levers such as carbon pricing and Renewable Electricity Certificates (RECs) provides the necessary investment signal for new electricity generation. Coal and gas remain the only viable choices for base load generation with the carbon price determining which is the most economic. At current technology costs wind will do the majority of the work required to meet the Renewable Energy Target (RET). It would be preferable for the RET to also encourage other renewable technologies especially those capable of providing base load generation. Gas generation also has an important role in providing back up and flexibility for the intermittency of wind generation and solar PV systems.

The resilience and robustness of our energy markets does not mean that they are stagnant. Market rules are reviewed and enhanced on an ongoing basis to respond to evolving technology and customer requirements. Origin supports the current focus on developing gas markets. The commencement of the Short term Trading Market (STTM) in Sydney and Adelaide in 2010 and expansion to Brisbane in 2011 provide a more transparent price signal for the development of gas resources. Inter-connected domestic markets and the development of LNG export from Gladstone in Queensland provide a strong and sufficient signal for development of gas reserves in NSW.

In the case of electricity networks which are natural monopolies, regulation is required as a proxy for competition. Transparent and efficient regulation for electricity networks is important as they are the biggest contributor to retail price increases.

Smart meters or half hourly meters with communications will be important to extract efficiencies and unlock technologies on the customer side. Smart meters allow a price response to dampen escalating peak demand driven costs. They will also facilitate the deployment of new technologies such as electric vehicles and gas driven fuel cells and enable much stronger engagement with customers on their energy choices.

2. Retail price controls inhibit competition, innovation and investment.

Origin strongly urges the NSW Government to follow through on its commitments under the Australian Energy Market Agreement to abolish retail price controls subject to the Australian Energy Market Commission process for reviewing the effectiveness of competition. As the market responds to technology developments and the carbon price, it is becoming increasingly difficult for governments to predict future prices. The consequences of governments being inevitably wrong with their predictions are dire. If the government price is too high then it results in a windfall gain to retailers. If the government price is too low it will deter competition and investment and higher prices will eventually be needed to attract investment. Victoria has demonstrated that the solution is simple and effective for all stakeholders. With no price regulation in Victoria competition is strong, there is less concern about price rises and the Victorian Government is not blamed when prices do increase.

The Queensland Competition Authority has recently released a new methodology that sets retail tariffs below long run costs. Such an approach will severely damage retail competition and deter investment.

3. Government intervention is only necessary where there is clear evidence of market failure.

Origin supports a market based price on carbon as the central policy response to climate change challenges. The RET is a key complementary policy to encourage investment in renewable electricity generation technologies that will be necessary in order to meet our long term carbon reduction targets.

However the plethora of federal and state based feed-in-tariffs, energy efficiency schemes and other subsidies are inefficient and just add to price pressures being experienced by customers. These schemes should be reviewed, rationalised and harmonised. Complementary policy should only be implemented if there is clear and demonstrated evidence of market or regulatory failure. Further, complementary policies should be transitional and implemented or co-ordinated at a cross jurisdictional level such as through the Standing Committee on Energy and Resources (SCER) framework.

Governments have important roles in planning and regulation including pre competitive resource exploration and acreage release. These roles should help facilitate investment. We understand that in setting a policy for coal seam gas and wind farm development the NSW Government needs to balance interests across different stakeholder groups. However policy must be fact based and balanced. If the NSW Government proceeds with mooted policy to have exclusion zones around energy development then the developers will tend to move to other states.

In some jurisdictions governments have considered or implemented policy that reserves gas for domestic consumption. In our view such policies are counterproductive as they will act to deter gas exploration and future investment and lessen energy security. Developers will generally invest where they can access a market price and not where there is a threat of government intervening to control resources and markets.

We look forward to ongoing engagement with the NSW Government on energy policy matters. [REDACTED]

Yours sincerely

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Tim O'Grady
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