

ENERGY PRICE ISSUES

Headline Statement

- Rising energy prices (both electricity and gas) are impacting Australian manufacturers and industries, particularly those that are energy intensive, exposed to spot markets and may not be able to pass on costs.

Key Points

- The increase in international energy prices together with the fall in domestic coal generation and the ramp-up in gas demand have resulted in substantial increases in domestic electricity and gas prices (particularly in the spot markets).
- In the 2022-23 October Budget, Treasury has assumed retail electricity prices will rise by an average of 20 per cent nationally in late 2022 and rise by a further 30 per cent in 2023-24 (given wholesale contract prices for electricity remain elevated). The October Budget also noted domestic wholesale gas prices remain more than double their average prior to Russia's invasion of Ukraine. Retail gas prices are expected to increase up to 20 per cent in both 2022-23 and 2023-24.
- Wholesale gas prices are also expected to increase significantly, but by less than retail gas prices, as major gas retailers are somewhat insulated from spot prices, either through long-term contracts or investment in gas supplies.
- The spot market represents only around 20 per cent of gas market trade, while 80 per cent is under fixed contracts. While most businesses have fixed price gas supply contracts (typically 1 to 3 years), price pressures are more widespread as new contracts are renegotiated at higher prices. A similar scenario exists in the electricity market.
- The Treasurer has reiterated (post budget) that there's more work to be done on the regulatory side, and it involves working with the relevant colleagues and governments at multiple levels, and if there's something the Government can sensibly do on energy beyond the substantial steps that has been already taken, the Government will certainly consider it.
- The Government will continue to work with industry and explore outcomes for both gas users and producers and respect our international obligations while addressing domestic needs.

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Policy Commitments

- The Government is committed to ensuring Australian households and businesses have access to reliable, affordable energy. Funding of up to \$65.7 million is supporting measures to improve domestic gas supply and includes:
 - \$40.9 million to increase the frequency of domestic gas supply assessments by the Australian Competition and Consumer Commission (ACCC) and implement reforms to the Australian Domestic Gas Security Mechanism
 - \$24.8 million to extend the ACCC's inquiry into gas supply arrangements in Australia. This extends the 2019–20 MYEFO measure titled Australian Competition and Consumer Commission Gas Inquiry – extension.
 - Asking the Australian Competition and Consumer Commission (ACCC) to examine the voluntary Code of Conduct governing Gas Supply Agreements with the view of making it mandatory.
- These measures build on work the Government has already started. For example the new Heads of Agreement (HoA) between the Australian Government and East Coast LNG Exporters will ensure gas supply amid a forecast risk of a domestic gas supply shortage next year.

Background

Measures to modernise gas and electricity market

- **Increased support for the ACCC Gas Inquiry** – The ACCC will be allocated \$10.4 million over the forward estimates, a 40 per cent increase in funding, dedicated to monitoring the gas market through the ACCC Gas Inquiry, increasing the frequency of domestic gas supply assessments.
- **Improving Gas Security and Reliability** – The Australian Energy Market Operator (AEMO) will have extended powers to intervene and respond to gas system security concerns and manage volatility. Ahead of winter 2023, immediate legislative reform will see AEMO's powers to ensure adequate gas reserves are available for power generation extended to include all east coast gas markets. In addition, the National Gas Rules will be strengthened so that AEMO and gas market participants will be able to identify and respond to emerging gas system security concerns and manage periods of volatility - such as what occurred in this year's winter. The Budget will allocate \$23 million over three years to deliver these reforms.
- **Protecting Consumer Interests** – The Australian Energy Regulator (AER) will take on a new compliance and monitoring role to ensure gas companies are acting in the best interests of consumers and support reforms to encourage investment in firm capacity, with \$22.8 million provided in the Budget over four years for this increased activity.

- **A Stronger ADGSM “Gas Trigger” to Protect Supply:** The Australian Government will reform the Australian Domestic Gas Security Mechanism (ADGSM) to give the Minister for Resources greater flexibility to protect domestic gas supplies. Under the reforms, the Minister for Resources will receive expert advice each quarter and will be able to start the process to activate the ADGSM if there is a risk of domestic gas supply shortages.
- Changes to the mechanism will deliver much more flexibility and will mean decisions to activate the ADGSM can be made every quarter ahead of peak seasonal demand periods, rather than only once a year under the old regulations. The Government will consult with industry in the coming months on the detailed design, ahead of planned commencement in mid-2023. The Budget will invest \$10.8 million over the forward estimates to implement reforms to the ADGSM, such as operating tradable export permits.

Reviewing and strengthening the voluntary Code of Conduct

- The Treasurer has requested the ACCC provide observations on the existing voluntary Code of Conduct for the negotiation and development of Gas Supply Agreements between Gas Suppliers and Gas Customers in Australia.
- In providing this advice before the end of the year, the ACCC will consider options and recommendations to:
 - improve price transparency,
 - better define a reasonable offer, including consideration of reasonable prices,
 - Improve the operation of the code, with the intention of it being made mandatory.

Gas Prices

- The average east coast spot price on 01 November 2022 was \$22.51/GJ.
- The monthly average spot price for October 2022 was \$19.57/GJ which was 139 per cent higher than the October 2021 average price of \$8.19/GJ.

Electricity Prices

- The high electricity prices currently felt across the east coast are driven by:
 - Sustained international circumstances increasing prices for coal and gas resources:
 - The war in Ukraine and related sanctions on Russia.
 - Increased global demand associated with the COVID -19 recovery.

- Domestic events:
 - Unplanned coal-fired power outages (In the two months before 8 June 2022, an average of around 31 per cent of coal capacity was unavailable in the NEM).
 - Coal supply issues due to recent flooding, rail disruptions and workforce issues.
 - Lower renewables output due to La Niña weather patterns causing too much or too little wind for wind generators and reduced solar output.
 - Cold weather leading to higher demand.
- Wholesale electricity prices recently increased to the degree that several automatic interventions were triggered, with the Australian Energy Market Operator ultimately suspending the wholesale spot market from 15 June 2022 until 24 June 2022.
- These events have triggered compensation payments for generators (some of which are not yet finalised), which will be billed to retailers on a pro-rated energy volume basis and passed through to customers.
- Volume-weighted wholesale electricity prices across the National Electricity Market (NEM) in 2022 to date¹ have averaged from \$173/MWh in Tasmania to \$251/MWh in Queensland. Overall, year-to-date electricity prices in the NEM are at 282 per cent of the average price for the same period last year.
- While most small businesses will not buy electricity directly from the wholesale market, higher costs for electricity retailers are now flowing through to their offerings for customers.

¹ As of 0:00 17 October 2022