CLIMATE ENERGY FINANCE

As regulator flags ~20% hike in retail electricity prices from July, accelerated energy transition only permanent solution to price pain

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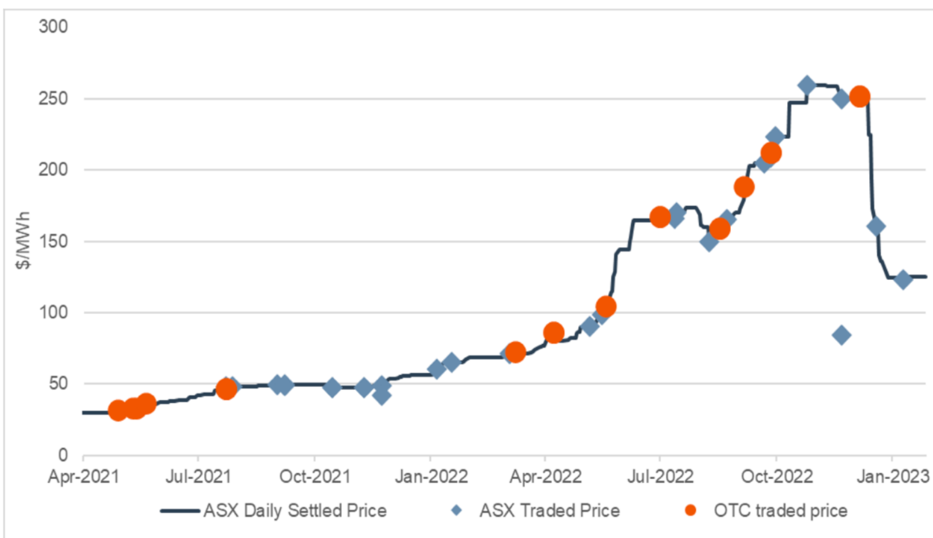

OTC and ASX traded swaps of electricity prices (2021-2023). Source: AER, 2023

The Australian Energy Regulator (AER) has today announced its draft Default Market Offer (DMO) flagging a 20% increase in retail electricity prices from 1 July 2023 for retail and small business customers in the National Energy Market covering NSW, South Australia and southeast Queensland – more pain for those struggling with the mortgage interest rate rises stretching budgets to breaking point. This latest hike worsens the average 10-12% increases in retail electricity prices in July 2022.

The 20% rise had been anticipated by major retailers in recent weeks, and is fortunately well down from the threatened increase that forced federal energy minister Chris Bowen's hand last year, resulting in an unprecedented energy market intervention in December 2022. At that time, the Albanese government capped domestic wholesale coal and gas prices, an action that was clearly justified. The head of the AER confirmed that prices would have risen some 40-50% in the absence of the intervention.

However, the hoped for reduction to just a 10% rise in retail electricity prices from July 2023 has not materialised. This is a consequence of factors including continued outages at our aging, unreliable coal power station fleet, such as Callide C in Queensland and Loy Yang A and Yallourn in Victoria, which now won't be back onstream until early 2024.

The failure of the previous federal government to accept and act on the climate science and the obvious energy security risks of trying to extend end-of-life coal power plants now exacerbates the slow-moving energy price train wreck smashing Australian retail and business customers.

So when can we expect relief? Retail electricity prices will likely start to decline beyond 2024 as significant new clean energy generation capacity comes online. However, today's draft decision is a clarion call for accelerated climate and energy policy implementation to build out investments in regional Renewable Energy Zones (REZ), rooftop solar, induction cookers, heat pumps, batteries, electrification of everything and improved energy efficiency, particularly in our $9 trillion housing sector.

More capacity is the key, and this takes time to construct. Fortunately batteries, wind and solar can be built relatively fast. But we also need enhanced transmission grid infrastructure, as well as gas peakers, pumped hydro storage, and two-way electricity flows enabling electric vehicles (EVs) – "batteries-on-wheels" – to send power to the grid.

After a decade of policy chaos, a key priority of the federal government should be a modernised regulatory framework which expedites approvals in line with climate objectives, and more effective and timely community consultation processes.

Prior to the finalisation of the electricity price rises from 1 July, the federal government should also put in place measures to alleviate and limit the massive cost the fossil fuel sector is inflicting on all Australians.

This should include a temporary windfall export tax on the multinationals making out like war bandits as they extract unprecedented super profits from our fossil fuel resources off the back off supply disruptions triggered by Russia's war on Ukraine, and pay next to no corporate tax. Australians are wearing the collective impact of their rampant, unconscionable profiteering, and of the price gouging of the gas cartel, both directly in terms of skyrocketing electricity and gas prices, and through the resulting surge in general inflation via rising mortgage rates.

The one-off revenues raised by a superprofits tax could be used to offset cost of living for those in our community most affected – especially in light of the government's commitment to energy bill relief in the forthcoming federal budget – and to fund the government's energy transition programs.

Energy transition and accelerated decarbonisation will progressively diminish energy consumers' exposure to the fossil fuel commodity price volatility, and to the gas cartel's egregious price gouging. The ultimate solution to the energy price crisis is transition of our energy supply to zero-emissions, low cost firmed renewables, which will permanently reduce power bills.

This requires accelerated investment, which in turn requires climate and energy policy certainty, stability and ambition by federal and state governments.

In its ten months in office, the federal government has made headway across multiple fronts, including passage of the Climate Act legislating a 43% emissions reduction by 2030, the commitment to 82% renewable energy by 2030, the Safeguard Mechanism, the $20 billion Rewiring the Nation program, designed to catalyse the build out of transmission infrastructure, and the revamped energy Capacity Mechanism, which now excludes coal and gas and will turbocharge investment in renewables. This has been matched, and in some cases exceeded, by the states, including for example NSW, which has made strong policy progress on expediting REZs and major transmission and storage projects, such as the Waratah super battery.

After a lost decade, there is now very significant momentum nationally, and permanent relief, while not immediate, is on the horizon.

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