

Dear All

As we enter the New Year many ask what happened last year and what is likely to happen this year. Not surprisingly, the climate is a point of focus as is whether Australian governments' policies to reduce carbon emissions are working. Also not surprising is that there are differences in opinion about the merits of those policies.

Environment Minister Frydenberg has been active in defending the Federal government's energy policy and attack Labor for not clarifying its. Basically, his claim is that while the closure of coal fired power stations has reduced the supply of coal-fired power, there has been an increase in supply from renewables

## More energy price hikes on the way as industrial users sweat



Business hasn't seen the end of steep price increases for energy. James Alcock



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by Angela Macdonald-Smith

Industrial users of energy are still being slugged with steep increases in electricity and gas prices, with some facing a potential tripling in their power bills later this year as contracts come up for renewal.

Government and regulatory efforts to rein in runaway energy bills appear to have had little impact, putting jobs and investment on the line. Some manufacturers complain that the government intervention last year into east coast LNG exports had only created a hugely uneven playing field for users.

Victorian metals processor Ace Metal Treatment Services is struggling to break even this year after being forced to sign up to an expensive \$16-a-gigajoule contract for its gas last year, before a softening in prices later in the year that has since slightly reduced contract prices, said general manager David Karney. On electricity, Ace has received quotes for supply to its main site south-east of Melbourne at 13¢-15¢ per kilowatt-hour, a massive jump from its existing 4.5¢-per-kilowatt-hour contract, which expires this year.

The Hazelwood closure last March lifted Victoria's reliance on more costly gas power. JPMorgan

"If we can get through this year without going broke, that's our goal, and we still have to see the impact of the electricity pricing," Mr Karney said.

Orora is a leader in innovative packaging solutions, employing 5,500 people across 122 sites in 7 countries. Orora supplies a broad range of fibre, metal and glass packaging solutions, as well as packaging services including design, distribution and recyc

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"We've had a couple of people leave and we can't replace them, we don't have the profitability to do so."

Nervous times

Ace is not a one off, with Energy Users Association of Australia chief Andrew Richards pointing to at least four Victoria-based heavy gas users that have had to lock into expensive supply contracts to guarantee delivery of an essential input for their operations. It means they have said goodbye to profits for the

next two to three years, when they are effectively "working for the gas companies", Mr Richards said.

NSW base-load electricity strip forward contracts are still well up on two years ago. JPMorgan

"It's a nervous time for these guys," he said. "It's a situation where people had no other choice but to sign up for contracts, otherwise shut their doors."

High energy prices are having an impact throughout the economy and are named as a top concern by business chiefs ranging from Orica's Alberto Calderon to Graincorp's Mark Palmquist. At Incitec Pivot, a plant at Gibson Island in Queensland is at serious risk of closure at the end of September unless the company can secure gas at an affordable price.

Orora managing director Nigel Garrard told shareholders at the annual meeting last month that the packaging company is investigating a range of renewable energy options and is targeting savings of more than 10 per cent on its energy intensity during the next two to three years.

Graham Lee at hardware manufacturer Alchin Long, in western Sydney, also said energy prices were still a major concern after shouldering a near-doubling of its electricity tariff last year.

Federal Energy Minister Josh Frydenberg said the government's deal with the Queensland LNG producers in October had resulted in more gas being supplied to the domestic market, with wholesale prices for large users falling up to 50 per cent. "This drop in the wholesale price of gas has bought with it welcome relief to Australian businesses who have been struggling with a lack of supply and high prices," the minister said. "Affordable gas is also important as gas-fired generators are setting the price of electricity more than they have in the past as coal-fired generators exit the system."

Still, Mr Richards at the EUAA, whose members include Wesfarmers and Woolworths, said larger electricity users, which are more exposed to wholesale price fluctuations, had seen a 50-100 per cent increase in the wholesale component of their energy bill during the past 12-18 months. "They are desperately wanting to see some stability in the market," Mr Richards said. "But we are still seeing the forward curve for this year at over \$100 a megawatt-hour in every jurisdiction apart from Queensland."

In a spot

Spot power prices jumped in anticipation of the closure of the large Hazelwood coal-fired generator in March, and while they have since moderated, forward prices remain "elevated", JPMorgan said this week. Average spot prices in NSW in December were 49 per cent up on a year earlier, although January prices so far have averaged lower. "Despite the moderation in absolute spot prices, forward contracts continue to reflect elevated price volatility and risks of supply shortages," JPMorgan energy analyst Mark Busuttill said. "Compared to the same time last year, active forward contracts are up 25 per cent in NSW, 45 per cent in Victoria and 13 per cent in South Australia, with Queensland largely flat."

Mr Richards said that while anecdotally there had been a slight moderation in gas prices, "it's a moderation rather than a relief." "We are still seeing prices of \$14-\$15 for delivered gas, which is unsustainable," Mr Richards said. "[Some manufacturers] are looking for a delivered gas price of under \$10." "We're a long way away from getting sustainable gas prices, and we're a long way away from getting sustainable electricity prices. We think this year is going to be pretty pivotal, with the consultation on the National Energy Guarantee to kick off later this month."

Mr Frydenberg noted the proposed NEG has been welcomed by Business Council of Australia, the Australian Chamber of Commerce and Industry and Australian Industry Group "and many others as a way to deliver a more affordable and reliable energy system".