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Cut power bills or lose more jobs: ACCC chief's warning on energy costs

Australian Competition & Consumer Commission chairman Rod Sims.

Glenda Korporaal, The Australian, 12:00AM December 30, 2017

Australia's competition regulator, Rod Sims, who has been tasked with finding ways to cut power bills, has warned that high energy costs will force more plant closures and job losses as prices continue to increase. "Energy affordability is Australia's largest economic challenge," the chief executive of the Australian Competition & Consumer Commission told The Weekend Australian. "We have already seen jobs lost, investment reduced, plant closures (because of high energy prices). Unfortunately, we are going to see quite a bit more."

Mr Sims said low-cost energy used to be the biggest competitive advantage of Australian businesses but "now it is our biggest source of comparative disadvantage".
"We have gone from having energy costs being the best thing we had going for us to now being the worst," he said.

Mr Sims's comments come as the ACCC undertakes two major reviews for the federal government aimed at tackling Australia's energy crisis.

The Turnbull government has been under pressure to get energy prices down, with economic growth and cost of living emerging as major political battlegrounds in 2018.

The Business Council of Australia yesterday backed Mr Sims's comments, saying Australia's competitive advantage in energy costs had been "eroded after a decade of poor and unco-ordinated policy, putting at risk Australian jobs and disadvantaging businesses and consumers alike".

Mr Sims said the gas industry was on notice that the commission would be looking closely at its activities. Prices have doubled and in some cases tripled for users of gas over the past five years. The ACCC's interim report into the gas industry estimated industrial users in Australia could be paying up to double the international price for gas. Chemistry Australia, a national industry group representing Australia's chemicals and plastics industries, estimates gas prices for its members have tripled from about $5 a gigajoule five years ago to about $15 today. Some companies are having to pay even more for their gas.

Mr Sims said there were no quick fixes for the problems but the ACCC's monitoring programs could help. "We want to keep the pressure on the markets (for gas and electricity)," he said. "We want everyone to know what is going on in the market, and that transparency itself can help improve the market." He said the biggest pressure would be on manufacturing companies that used gas, including those involved in making fertiliser, paper, glass, steel and bricks.

High energy prices were affecting sectors such as telecommunications companies, services that used refrigeration and farmers using irrigation. They were also affecting retailers, whose customers' budgets were hit by rising electricity costs.

The ACCC is working on a review of ways to reduce energy costs, with a report due in June. "We have a mandate to come up with recommendations to government to get energy prices down," Mr Sims said. "If we can come up with sensible recommendations, my guess is that governments will adopt them." The ACCC is now working on its three-year, wide-ranging review of the

gas industry to come up with measures to improve the supply of gas in Australia, which has become critical with the start of exports of LNG from Gladstone in Queensland.

After its interim report in September, the ACCC began talks with big gas companies about supplying more gas to local companies, particularly those that faced gas shortages from next year. Rising prices for electricity and gas have put the Turnbull government under pressure to come up with solutions despite the fact several key supply issues are state-based, with NSW and Victoria effectively banning development of new onshore gas fields.

Local manufacturing companies are now warning that there will be a shift of jobs and industries to the US, where energy prices have come down substantially and the Trump administration is cutting company taxes.

The executive director of the Australian Retailers Association, Russell Zimmerman, this week blamed the high cost of energy as a factor in holding consumers back from spending in the post-Christmas sales period.

ASX-listed fertiliser company Incitec Pivot is considering the future of its manufacturing plant at Gibson Island in Queensland, which employs more than 450 people. The company said it was investigating options to secure affordable gas but “if no solution is found, it is likely the manufacturing facility will close”.

Perth-based chemical manufacturer Coogee Chemicals mothballed its methanol plant at Laverton in Melbourne last year as a result of higher gas prices. The company said yesterday it was closely watching the future of gas prices to see whether it would decommission the plant and ship it to the US to take advantage of cheaper gas prices.

Mr Sims said the ACCC was closely monitoring companies in Australia that were struggling to get gas from the beginning of next year. It had had discussions with the LNG companies to encourage them to supply gas to local companies instead of selling it on the international spot market. “There is no doubt that, in some of the situations, the monitoring by the ACCC made the difference between some companies getting gas and not getting gas,” he said. “In some cases it had an effect on the price they paid.”

A spokesperson for the Business Council of Australia said Australia’s “competitive advantage in energy costs has been eroded after a decade of

poor and unco-ordinated policy, disadvantaging businesses and consumers alike. “Households and businesses simply do not care about the petty politics of climate and energy policy — they care about being able to pay their bills.”