

The Hon. Angus Taylor MP

Minister for Energy

Speech to the National Small Business Summit, Council of Small Business Organisations Australia

Speech

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*****Check against delivery*****

Good morning Ladies and Gentlemen. It's wonderful to be here and an honour to speak to you all today at the National Small Business Summit. Can I begin by acknowledging the Council of Small Business Organisations Australia (COSBOA) and the enormously important role small business plays in the life of so many Australians. As someone who worked in and for small businesses for much of my life, I believe the contribution of small business is under appreciated in many quarters. As a government, we work hard every day to make sure we don't make that mistake.

As the new Minister for Energy, my first and only priority is to reduce power prices. And to do this while keeping the lights on. As Prime Minister Scott Morrison put it, my formal title is the Minister for Energy.

But I want, and the new PM wants the Australian people to know me as the Minister for reducing electricity prices. Focusing relentlessly on price while keeping the lights on will require some truth-telling. There will be no ideology, no grand gestures one way or another, just a simple, pragmatic focus on the solutions.

This Government has made great strides on energy in recent times, but energy policy was bogged down for years in complexity. Complex scheme layered upon complex scheme. These schemes have not been designed with Australian consumers in mind. Other objectives have driven the industry to the point where we have lost sight of what we are here to do.

The challenge now is to accept that we had a mess and we are now fixing it, with one aim only - to reduce power prices while keeping the lights on. The reason for this focus is to help people, families, small and family businesses make ends meet, and to help industry create new jobs.

Prices are no longer sustainable - for families, for pensioners, for businesses.

When I talk to my constituents and small business owners in my electorate, and people around Australia, they tell me they want lower electricity bills. Not only want, but need. They're struggling. They know instinctively that prices are too high because they remember a time when electricity in this country was abundant and cheap.

They know that something has gone terribly wrong.

Research by the Australian Energy Market Commission showed that a third of small business people experienced electricity bill shock in the past year. I know that many small businesses are at breaking point because of rising electricity costs, and that job losses and closures are only a matter of time if we don't get prices down.

Well, I hear them and I hear you. We are listening and we are taking practical action right now. I will be bringing all my experience, knowledge and capability to get this job done. Prior to my career in politics, I worked as a consultant to Australia's energy, infrastructure and resources sectors and advised global companies on energy policy. For many years, I crunched the numbers and developed energy market modelling for businesses of all sizes. I've been thinking about energy problems and solutions for a very long time.

Before I outline the direction of this new Government, I wish to address four points about what motivates me and this government in this area.

First, we need to recognise that sharp increases in retail electricity prices, particularly the doubling we saw under the previous Labor government, has eroded the trust of Australians in the capacity of government and politicians to deliver affordable, reliable energy. We need to re-establish this trust. I learned a long time ago in business that you need to get the basics right. For too long, governments were distracted by the wrong things. And one of the most basic things any business or household can ask for is affordable, reliable energy.

But because of a failure to focus on the basics the electricity sector, like the banks, needs to re-establish its credibility or social licence with the community. That means maintaining and increasing industrial jobs in energy intensive industries and ensuring households, particularly those doing it toughest, can make ends meet.

Secondly, some of the press in recent days have highlighted my so-called climate change 'scepticism'. I am not sceptical about climate science, but I am and have been for many years deeply sceptical of the economics of so many of the emissions reductions schemes dreamed up by vested interests, technocrats and politicians around the world. For more than 30 years I have shared concerns about climate change and the impact of CO2 equivalents on our climate. I am a lover of the environment, a farmer, and a passionate back-country skier and hiker.

My family, which has farmed in the Monaro region of Southern NSW for almost two centuries, has continually changed farming practices to reflect the changing climate, particularly in recent years. But none of my concerns justify supporting expensive programmes that deliver little else other than funnel consumers' hard-earned money into vested interests resulting in increased prices and reduced reliability.

Whether it was Pink Batts, Cash for Clunkers, the Carbon Pollution Reduction Scheme, Citizens Assemblies or excessive renewable energy targets, the tendency of governments, aided by often willing technocrats, has been to conceive programmes that do little more than raise electricity prices or government spending, or both. In good conscience, I simply can't support the hard-earned wages of Australians being siphoned off into these sorts of schemes.

Thirdly, I see a strong role for commercially viable renewables, alongside continued focus on coal and gas. Renewables have an important role in the energy landscape, as they have had for a long time. For 18 years (1949 to 1967), my Grandfather, William Hudson, was the first

Commissioner and chief engineer of the Snowy Mountains Scheme, Australia's greatest renewable scheme, a scheme that has done more to reduce emissions than any other project in Australian history. He was proud of the clean energy that the Snowy provides.

Renewables are in my blood, and have been from the day I was born. As well as hydro, solar is playing an increasingly important role in our networks. Like many others in regional Australia, we use solar technology on the farm where we live.

Finally, if we are to drive down prices, we will need laser-like focus. Governments, businesses and individuals are always at their best when they're focused on a clear goal. As small business people, you know better than most that clear, simple, measurable, well-communicated goals work best. As a government, that's been our experience.

When Scott Morrison was Immigration Minister in 2013, he set one clear goal - stop the boats. There was no ambiguity for him, or anyone working for him. Few believed it was possible, but he did it. Most commentators wanted more nuance, more complexity, and more sophistication. But one clear message, and one clear goal worked.

I wish to give Australians the same clarity - getting power prices down.

Before I turn to the new direction of this Government's energy policy, let me acknowledge important recent achievements. Retail and wholesale electricity prices have turned a corner. They have turned a corner because of the downward pressure on gas prices through our gas market intervention. Electricity prices are turning a corner because we are reducing the costs of transmission and distribution by reforming the limited merits review, in line with the telecommunication and water sectors. And prices are turning a corner because we are holding the retailers to account, ensuring they offer their customers a better deal with more transparency.

But we need more price-busting initiatives.

As a Liberal, I am not a strong believer in heavy-handed government intervention. It would be marvellous if we could fix these problems by leaving the industry alone. But we are well past that point. This is a sector now characterised by heavy-handed government intervention. Poorly conceived interventions in the past leave us no choice but to make interventions if we're going to get things back on track quickly.

On the other hand, the sooner the industry steps up and provides the solutions to these problems, the sooner government can get out of the way. There are at least three areas of focus for me and the government if we are to get prices down further.

This is not an exhaustive list, but it will give you a sense of where we are going. This direction builds on the outstanding work done by my predecessor in this role, Josh Frydenberg, as well as the recent ACCC report: "*Restoring Electricity Affordability and Australia's Competitive Advantage*".

First, we need to empower customers with a price safety net. One of the most notable developments in so many industries in recent years is the increasing power of customers to hold service providers to account by making more informed, better choices. New competitors and business models have emerged, shifting power to customers in industries as

diverse as taxis, hotels or retail. This delivers better services, better prices and more informed customers. It also holds badly behaving service providers to account, for charging too much, or for providing poor service.

This is not the case in the electricity sector. We know that many consumers are simply not getting the best available price, and retailers are not held to account. If you are prepared to switch suppliers each year to get the best market offer, you can get find discounts. With encouragement from the Government, more people are doing this, but we need to go further. We want to put customers in charge.

The ACCC recommended establishing a default market price to replace unregulated standing offers. This means customers will not have to shop around each year to get a competitive price and can avoid price hikes. The expected savings are significant. In addition, we will require retailers to use the new default rate as a reference point for all advertised discounts and we will eliminate excessive penalties for late payment.

Using price comparison websites and giving consumers more power over their usage and payment data, alongside easier switching, will help this process. We will be establishing a mandatory code of conduct for price comparison websites to focus on consumers, not energy company commissions.

Secondly, we need more competition and more reliable supply. The ACCC rightly pointed out that each of the individual state markets in the National Energy Market are highly concentrated. A small number of players control high market share and with much less 'excess capacity' than when the NEM was first formed. We are struggling with a much tighter balance between supply and demand than in the recent past.

As more intermittent generation has come into the market, baseload coal generators have left the market (for example, Hazelwood). Generators have integrated with retailers, to form 'gentailers'. New supply can come from many different sources - expansion of existing generators, upgrades of legacy generators, and greenfield projects.

We need to encourage all of these, while retaining what we have wherever possible. It's ironic that in a country with an abundance of natural resources - coal, gas, water and solar - we should be in this position. We need to leverage those resources, not leave them in the ground.

We will continue to encourage dropping state and territory gas moratoria, which have contributed substantially to the problem.

A fair deal for farmer landowners is a crucial part of the solution to getting faster access to resources. Last week the now Prime Minister and the Treasurer announced that we would be implementing a programme to underwrite new stable, low-cost generation for commercial and industrial customers.

We are currently working through the detail of this programme, and that will be done expeditiously.

In addition, we have accepted the ACCC recommendation to cap the share of generation in each market. There has been a lot of talk in recent months about increasing investment

certainty for the electricity sector. Frankly, I think there is some naivety in the idea that governments can largely eliminate uncertainty, or should even try.

Parliaments or governments can't bind future parliaments and governments - this would be a breach of the fundamental principle of parliamentary sovereignty. But we can create an environment where there is sufficient confidence and incentive to invest. Re-establishing the confidence to invest will be a central goal of any energy market reforms.

Thirdly, price gouging needs to stop.

Price gouging by distribution and transmission businesses has been a result of overengineering the networks, overinvesting in the infrastructure and being given a regulated rate of return on the investments. What a business. Convince the regulator you need to invest, and your returns are guaranteed.

Most hard-working small business people would weep at the way that works. They never get those sorts of guarantees. All of that is paid for by electricity consumers, and it is unacceptable. The regulatory process needed to change, and it is changing with the reform of the limited merits review. In practice, this means it is much harder for these businesses to overengineer and over invest.

At the wholesale generation level, there is enormous potential for strategic pricing, or price gouging, in the vernacular. In any industry, if market shares consolidate, it becomes easier to hold back capacity from the market and drive up prices. In very dynamic markets like electricity, this is always tempting.

When demand is strong and supply is short, holding back capacity can have a massive impact on prices, both in the short term through strategic bidding, and in the long term by permanently reducing supply.

The ACCC proposed a number of changes to address this, which the government accepts, including:

- Directing the ACCC to hold an ongoing inquiry into prices, profits and margins in the NEM (until 2025), with reports at least six monthly
- Establishing greater transparency in the wholesale market with enhanced powers around market manipulation
- Intervening if businesses don't respond to ACCC recommendations, including divestment, fines and penalties

While the ACCC didn't recommend divestment, we are prepared to go down that path, albeit as a last resort. The better answer is that industry works with us to get wholesale prices down.

But the loss of trust and the failure to deliver acceptable outcomes has reached the point where the Government has no choice but to wield a big stick, which we will use if we have to. In my view, the alternatives to this approach are unacceptable. Our policy in this area is sharply differentiated from Labor and we make no apology for that.

Prices doubled during the tenure of the previous federal Labor government, and Jay Weatherill's experiment in South Australia with a 50 per cent renewable target has ended in tears. Not crocodile tears. Floods of tears. So what does Federal Labor propose?

It proposes to take Weatherill's failed experiment national.

The difference between us and them could not be more stark. Labor's platform puts climate change at the centre of their economic strategy. But, as the Prime Minister has said, this Government is instead focused on delivering for all Australians. That means reducing electricity prices and cost of living pressures.

In contrast, Labor prioritises the 45 per cent Paris emissions reductions target above of all else, at the expense of lower bills and reliability. Labor is proposing an emissions intensity scheme without understanding the impact on prices. They will force the closure of coal power plants with no plan for energy security. Comparable EIS modelling shows a \$300 hike in household bills under Labor, but for your business, it will be many times that.

Labor has proposed damaging bans and moratoria on gas exploration putting further upward pressure on prices, as gas shortages and price hikes feed into electricity prices. Their focus is on batting away Green Party threats to its inner urban MPs, not on developing evidence-based policy that will lower bills. Labor's policies will leave Australian households and businesses out of pocket and in the dark.

While a third of small businesses feel that the market isn't working in their interest, the Labor party has publicly stated that "high prices are not a market failure - they are proof of the market working well". This Government understands that small businesses are the backbone of our economy. We will continue to back small businesses to help them get ahead.

Practical action on energy prices is just one of the ways we will deliver for you.

Our new generation government heralds a new generation of energy policy - energy policy where we sit on the customer's side of the table without other distractions. I am acutely conscious that the energy industry, more than most, has many stakeholders, with many different views and interests, and that consultation is crucial to getting alignment and solutions.

But the simple truth is that if industry steps up and does the right thing on price, government can step back and focus on other things.

We are not at that point yet, and through the initiatives I have outlined, and others, we will be seeking strong alignment across the industry with the interests of customers to come first.

My personal focus, the Prime Minister's focus, and this Government's focus will be single-minded - getting power prices down.