

More pain on the way for most families

Steep hikes for electricity use are already locked in – before the new carbon tax

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IT was no coincidence that Julia Gillard chose to start her big household sell of the carbon tax in the suburbs of western Sydney last Monday. But it was fortunate for the imagery that it wasn't a hot day. The whirr of all those airconditioners would have been painful evidence of the very practical problems she faces in trying to persuade voters they can afford to pay more for their electricity.

During the past decade, the proportion of houses with airconditioning in the west has grown from 25 per cent to well more than 70 per cent, in line with trends across much of Australia and particularly evident in high-growth areas such as southeast Queensland.

All those households are already paying a lot more for their electricity than they did, up more than one-third in real terms during the past three



Julia Gillard answers questions on the carbon tax in Brisbane this week.

Picture: Jodie Richter Source: The Courier-Mail

years. For households, the rises have been even greater than for business. Steeper hikes still are already locked in during the next few years, quite independent of the imposition of a new carbon tax.

"There is no way you can see prices plateauing," says Keith Orchison, energy consultant and former head of the Electricity Supply Association of Australia.

"The community is largely unprepared for what's coming at it."

This makes only more potentially toxic the carbon tax addition of about 10 per cent to the average electricity bill and 9 per cent to the average gas bill next financial year, according to Treasury modelling.

It means the cost of living argument, used to so much effect by Labor in the 2007 election, is instead becoming its enemy, and nowhere more so than in must-win areas such as Sydney's west and Queensland. It's where grand policy principle meets small budget reality.

In the year to mid-2010, research by Macquarie Bank found that utility bills for energy, gas and water jumped

nationally by more than 15 per cent, the sharpest since 1983. Those increases are only continuing to accelerate. In NSW, for example, electricity prices jumped by about 15 per cent on July 1, with about 6 per cent due to the various renewable energy schemes already in place. Wait for the screams from households when the new quarterly winter bills arrive in a few months, before the carbon tax starts in July next year.

So while much of industry is poring over the extraordinarily complicated details of the carbon tax scheme, the obvious risk for the government is that annoyed, confused voters won't bother with the fine print of exactly what tax cuts they may or may not get as compensation. They'll just see their electricity bills going ever upwards and blame the notion of a carbon tax - and Gillard - for making things even worse.

The latest report on consumer sentiment emphasises how damaged confidence is.

The Prime Minister insists that she will just keep explaining "this big reform".

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"I'm not at all surprised that when a big reform is talked about, that people feel a sense of anxiety, that's understandable," she said as she moved on to Victoria. "I'll keep explaining this change and the possibilities of a clean energy future: the new jobs, the new skills, the economic growth and a better environment."

But behind the rhetoric and the dismissive talk that food prices and the household budget will be only marginally affected, the government knows that its claim to be able to transform the electricity sector is fundamental and very costly if it is going to work as planned to change usage.

"You can't have, in the 21st century, a first rate, First World economy unless you're powered by clean energy," Wayne Swan declared proudly, without focusing on the corollary that the 10 per cent price hike on power prices via a carbon tax could be only the beginning.

What's more, the plans for increasing energy efficiency via new technology such as "smart meters" to instantly measure time-of-use accurately have a catch. They will allow retailers to charge much more for those periods of the day of maximum use - such as when households come home and start turning on those computers and televisions and heaters and airconditioners and driers and dishwashers. It may work well for a few night owls but most consumers won't jump at the chance to switch off many of their appliances until late in the evening to save money.

It's true that technology breakthroughs should lead to greater energy efficiency in appliances and lower costs in some areas.

"Clearly, when we have priced carbon, right around the nation people will be thinking about cleaner energy



Airconditioning systems could become obsolete if energy prices rise steeply

Picture: Martin Neon

choices," Gillard said last week. "We will see an explosion in the development of clean energy technologies."

But the government glosses over the reality that those dirty coal-fired power stations will remain the staple of power generation in most of Australia for many years to come, certainly in 2020, albeit reduced from the 80 per cent it supplies now. Despite the hopes for the future, renewables such as wind, solar, biomass and geothermal power have no ability to provide the stable base load generation required to keep the system running. They also cost considerably more per kilowatt hour, as the Productivity Commission points out. The interim model is greater reliance on gas-fired power but that is still expensive compared with coal and will remain so at least until the carbon price gets closer to double

the \$23 a tonne initial levels. And that's if the wholesale gas price doesn't shoot up - unlikely.

Part of the community sticker shock is because the sharp rises of recent years come after a couple of decades of relative stability or even modest decline. The change is due to what the NSW government inquiry into electricity pricing last December called "the perfect storm" for customers.

These increases reflect in part the cost of all those green power subsidised schemes mandated or encouraged by state and federal governments and that feed into everyone's average costs. The carbon tax is supposed to eliminate many of these, but the carbon announcement includes no such agreement. What's more, the push on renewable energy - including

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the commitment by government and opposition to 20 per cent of Australia's energy from renewable sources by 2020 - ensures the more expensive green power proportion of energy bills will only increase.

But so far, at least, the main reason for the price hikes is the cost of replacing large parts of an ageing network, much of it now 40 to 50 years old. That includes all those towers, substations, transformers, poles and wires that transfer the power from the generator to the consumer. They must be able to transmit and distribute enough power to meet increasing demand, especially in the afternoon and early evening. This peak demand is growing faster than use at other times or overall economic growth.

In addition, new stricter state regulations on reliability mean networks must build enough surplus capacity to meet a surge on an extraordinarily hot day.

This limits any prospect of outages, even if that extra capacity is used only a few days a year. Effectively, the extra cost of that investment and maintenance goes on to consumers' bills.

Critics doubt just how much of this capacity is required. The government's climate change adviser, Ross Garnaut, for example, criticises it as "gold plating", which is unnecessary and more expensive than anything to be delivered by the carbon tax.

"It is important that disciplines are introduced that balance consumers' interests in low prices with marginal improvements in reliability," his final report says.

But companies retort that they have to build for future demand growth as well as today's. Nor do state

governments want to risk blame for no airconditioning on a 40C afternoon.

And that's where household usage patterns are so significant.

For all the talk of what households can do to help themselves and the planet, Australian domestic use accounts for less than 30 per cent of Australia's power bills. The rest is for business use.

The difference is business use of power is relatively predictable and stable through the day.

Household power, in contrast, surges in the early morning and again in the late afternoon and early evenings.

If the weather is particularly hot or cold, demand can vary dramatically and the networks have to supply it without a hitch.

Yet opposition climate action spokesman Greg Hunt points out that despite the savage rises in price through several years, per capita consumption has declined only modestly and continues to rise during peak hours because power is an essential service rather than discretionary. The alternative favoured by companies and state governments is to try to manage household demand in more sophisticated ways by what is called "time of use pricing". This has already proven more politically complicated than anticipated.

The Brumby government in Victoria had to declare a moratorium on the roll-out of smart meters early last year after voters complained vociferously about the increased costs.

The Queensland government, also grappling with the cost of investment to meet peak demand, is starting smart meter trials but moving cautiously.

In NSW, large-scale trials are under way, but quietly.

In Sydney, Australia's largest distributor, Ausgrid (the former Energy Australia), has installed about 400,000 smart meters for customers getting new systems installed with more than half on time-of-use pricing rather than volume-based tariffs. Most households don't realise they have been switched until they get bills.

Ausgrid argues this will save most customers money because most power use is outside the peak hours and because households can learn to change habits to avoid steeper costs in the early evening or morning.

In some cases, that may prove true. In other cases, not. That will inevitably mean more arguments over bills.

And all that smart new technology will cost a lot to install, leading to higher network charges.

"Funding the large-scale investment in the infrastructure to enable these technologies will add to pressure on retail prices," the NSW inquiry into power warned six months ago. Don't tell Julia. She has enough problems.