HawkerBritton
Government Relations Strategy

Energy Price Relief Plan

Over the course of 2022, the war in Ukraine has resulted in significant volatility and record prices for gas on international markets.

Due to the links between the domestic gas market and export markets, wartime prices for gas are driving high wholesale gas prices in Australia that affect domestic customers and the wider economy.

As an emergency measure to address the current energy crisis, on the 15th of December 2022, the Australian Parliament passed the Treasury Laws Amendment (Energy Relief Plan) Act 2022.

The Act establishes a new legislative framework for the implementation of the mandatory code and a temporary price cap through a gas market emergency price order.

On the 26th of April 2023, the Government released the *Mandatory Code of Conduct for the east coast gas market* consultation paper and is seeking submissions till the 12th of May. Further information is available here.

Temporary cap on the price of gas

Informed by the advice of the ACCC, the Commonwealth introduced a **12-month emergency gas price cap, to be set at $12 per gigajoule** on new wholesale gas sales by east coast producers.

The cap will apply to uncontracted gas offered on the wholesale market from currently operational fields capable of supply for 12 months from December 2022.

Gas from undeveloped fields and gas sold through the Short Term Trading Markets and the Victorian Declared Wholesale Gas Market will be exempted from the cap, minimising the impact on supply incentives and short-term price signals in these important balancing markets.

This measure is intended to ensure that wholesale gas is offered at prices that are affordable for domestic customers while still maintaining a reasonable return for suppliers and maintaining incentives for investment.

The Government also introduced a mandatory code of conduct for the wholesale gas market that includes:

- The introduction of a provision to ensure reasonable pricing for relevant domestic wholesale gas contracts with producers.
- Fast-tracking the implementation of the Australian Domestic Gas Security Mechanism (ADGSM) so that quarterly consideration of activation is in place by 1 April 2023.
- Boosting resources for the ACCC by $12.5 million over the forward estimates for the implementation, monitoring and enforcement of the price cap

The Mandatory Code was implemented to address bargaining power imbalances and systemic issues which may limit buyers' ability to negotiate gas supply contracts on reasonable terms.

For wholesale gas contracted for delivery beyond 2023, producers will be required to offer reasonable prices consistent with the mandatory code.

Competition and Consumer Amendment (Gas Market) ACT 2022

In December 2022, the Government conducted an initial consultation process which informed the design of the Competition and Consumer Amendment (Gas Market) Bill 2022.

As part of the initial process, the government committed to reviewing the code and the price cap by mid-2023.

Draft Mandatory Code of Conduct

On the 26th of April 2023, the Government released the *Mandatory code of conduct for the east coast gas market* consultation paper. It provides an opportunity for stakeholders to provide technical feedback on the draft regulations before the Code is finalised ahead of the new financial year.

The government is specifically seeking feedback on the following features:

- The code will ensure domestic prices are reasonable by establishing a price anchor through:
    - a price cap, initially set at $12/GJ.
    - conditional exemptions from the price cap for producers on the basis of satisfactory voluntary enforceable supply commitments or being a small producer who exclusively supplies the domestic market.
- The code will ensure negotiations between users and producers take place on a level playing field by introducing conduct requirements.
    - These provisions will apply to all gas producers and address bargaining power imbalances between producers and gas users and establish minimum conduct and process standards for commercial negotiations.
- A strong penalty regime will be enforced by the ACCC to ensure compliance with the Code, including compliance with the full conditions of any supply commitments entered into by producers.
- Gas producers will be required to publish details on the uncontracted gas they have available and when this would be brought to the domestic market over the forward 12 months to provide greater market transparency

Submissions from stakeholders are sought by 12 May 2023 and can be made here.

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Temporary Cap on the price of coal

The New South Wales and Queensland Governments set a set 12-month price cap for the price of coal used for electricity generation to $125 a tonne, with the Commonwealth to contribute to costs.

NSW

On 21 December 2022, the New South Wales Parliament passed the *Energy and Utilities Administration Amendment Act 2022* which provides the NSW Government with the ability to set the maximum price for coal used for domestic electricity generation at $125 a tonne.

The Amendment Act provides for its own repeal on 30 June 2024.

The bill and the explanatory note can be accessed here.

QLD

As the Queensland Government is part-owner in the majority of the state's coal infrastructure, the state government used its Direction Powers under the Government Owned Corporations Act to determine prices.

The Queensland Government is currently in discussions with stakeholders of the privately owned coal-fired generator in Gladstone about the temporary price caps.

Estimated combined price impact

At the time of the passage of the Treasury Laws Amendment (Energy Relief Plan) Act 2022, the government estimated these gas and coal measures are estimated to:

- Dampen predicted gas price increases by two percentage points in 2022-23 and 16 percentage points in 2023-24.
- Reduce the impact of forecast electricity price increases of 36 per cent in 2023-24 by 13 percentage points.

Targeted Energy Bill Assistance

The Commonwealth will establish an Energy Bill Relief Fund with up to $1.5 billion to deliver relief directly to electricity bills.

National Cabinet agreed to finalise the design and delivery of the energy bill relief based on the following principles:

- Bill relief will be jointly funded between the Commonwealth and the relevant State or Territory on a dollar-for-dollar basis.
- Contributions will constitute additional support above and beyond any existing or announced schemes.

- Bill relief will be targeted to households receiving income support, pensioners and Commonwealth Seniors Health Card holders, Family Tax Benefit A and B recipients and to small business customers of electricity retailers.
- Relief will be provided as a credit directly on recipients' power bills.
- Reduce expected inflation in 2023-24 by around an estimated half percentage point.

Capacity Investment Scheme

The Prime Minister and First Ministers have reinforced the commitment made by Energy Ministers at the meeting on 8 December, to implement the Capacity Investment Scheme (CIS)

This Scheme will unlock $10 billion of private and public sector investment in clean, dispatchable storage and generation.

Open tenders will determine the projects to gain CIS support, which will help decrease the risk for investors and spur more investment.

CIS will complement rather than overlap with existing state and territory schemes such as the NSW Electricity Infrastructure Roadmap. The new scheme will therefore not alter competitive tenders currently underway.

The Government will release further details on the scheme in the coming months, with a view to the first auction occurring in 2023.

For more information, please contact Hawker Britton's Managing Director Simon Banks on +61 419 648 587.