

Navigating a path through the national energy policy morass

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The almost weekly major energy policy announcements by State and Commonwealth Governments in recent times brings to mind the old cliché of never letting a good (energy) crisis go to waste. Sadly, the lack of national direction and various recent uncoordinated Government policy announcements to address short term political problems could be laying the groundwork for future crises regarding the security and reliability of Australia's electricity and gas supplies.

What have Governments been doing?

Over the past three months the following Government-initiated major energy policy initiatives have been announced or activated:

1. The final report by the Independent Review into the Future Security of the National Electricity Market (NEM) (the Finkel Review) was released on 9 June 2017. The guiding objective of the review was to "...ensure a secure and reliable electricity supply that meets our emissions reduction targets at lowest cost", with a focus on reducing Australia's greenhouse gas emissions by 26 to 28 per cent on 2005 levels by 2030. The key recommendation was for the introduction of a Clean Emissions Target (CET) to replace the current renewable Energy Target (RET), with the primary objective of better aligning energy and environmental policies.
2. The Australian Competition and Consumer Commission (ACCC) commenced its review of retail electricity prices in the National Electricity

Market (NEM), including of retailer margins and profitability. A report is due by June 2018.

3. On 14 March 2017, the South Australian Government announced a package of measures targeted at securing its own energy supply, including the construction of a new state-owned gas-fired power station.

4. On 15 March 2017, the Federal Government announced that it would fund an upgrade to the Snowy Hydro scheme to expand its generating capacity, subject to a feasibility study.

5. Last week the Federal Government announced that it intends to ignore the COAG Energy Council and unilaterally find a way to abolish the Limited Merits Review (LMR) regime - notwithstanding wide support for retention of the LMR (including from Energy Consumers Australia) revealed during a recent COAG Energy Council-initiated review of this legal mechanism.

7. Last week, the Federal Government announced an intention to impose restrictions on Australian gas exports, at the Minister's discretion in certain unclear future circumstances, forcing producers to supply the domestic market instead.

8. While not part of the Finkel Review recommendations, the Federal Government also indicated last week that it was considering reverse auctions aimed at deploying new dispatchable generation that it says would meet an emissions intensity threshold allowing for high efficiency coal. While the Commonwealth was not clear on

Brisbane

Level 8, 10 Felix Street
Brisbane QLD 4000
GPO Box 2605
Brisbane QLD 4001
P 61 7 3227 9500
F 61 7 3221 0404

Sydney

Level 26, 44 Market Street
Sydney NSW 2000
P 61 2 9089 8666
F 61 2 9089 8989

Melbourne

Level 40, 140 William Street
Melbourne VIC 3000
P 61 3 9607 8499
F 61 3 9607 8282

the issue, it appears to indicate a willingness to fund any such investments.

9 This week the Australian Energy Market Commission released its System Security Market Frameworks review final report, which provides for rules changes to support the shift to new forms of generation while maintaining power system security.

Implications

This plethora of energy policy reviews, policy and rules announcements might superficially give the impression that much is being done to lower Australia's current and prospective high energy prices. However, it is highly doubtful this is actually the case, particularly in the longer term.

Governments primarily have a role to play in setting a stable policy and regulatory environment and ensuring that markets are working effectively to deliver the best outcome for energy customers in the long term. Unfortunately the recent proposed government interventions risk creating even greater political risk for private investors in an already highly uncertain Australian energy policy environment.

The Finkel Review's key findings were aimed at establishing a stable policy environment that encourages timely and efficient private investment in the NEM, particularly in the electricity generation sector. Specific recommendations sought to target alignment on energy policy between the State and Federal Governments to avoid the situation of States, or the Federal Government for that matter, going it alone. This echos the Expert Panel recommendations of 2015 regarding future NEM governance, which remain highly relevant.

Alas, just over a week later the initiator of the review, the Commonwealth Government, unilaterally announced a raft of reforms, including flagging its potential future investment in electricity generation and removal of LMR.

What is the solution?

The current lack of national energy policy co-ordination must be addressed as a matter of urgency. There are too many short-term focussed, overlapping and contrary energy policy interventions occurring. Unfortunately, this confirms the view of the 2015 Expert Panel Review of NEM Governance Arrangements, which identified as a key finding, a 'strategic policy deficit' that has led to diminished clarity and focus

in roles, fragmentation and a diminished sense of common purpose in our energy markets.

A key recommendation of the Finkel Review is a new Australian Energy Market Agreement that commits the State and Federal Governments to a nationally consistent approach to energy policy and requires a participant's notification to the COAG Energy Council prior to taking unilateral action. This would be a good start but will be difficult to achieve. Moreover, who will provide the leadership and discipline to make it work in practice?

It is hard to believe in 2017 that some governments are considering re-entering the electricity generation market – be clear, this reflects policy not market failure and requires the policy failure to be addressed. Such actions increase uncertainty, and with it, the long term cost of electricity for consumers.

Indeed, it is evident that there is strong private investor appetite for investments in energy assets, both in the network and generation sectors, internationally. However, in an Australian context this investment will be hindered, or will not proceed, until national energy policy becomes effectively co-ordinated again. We did manage that back in the 1990s and 2000s but have seriously lost our way. Anything short of a co-ordinated and appropriately focused policy response will not be in the long term interests of consumers.

The unilateral dumping of important regulatory mechanisms like the LMR, which are highly valued by investors, to manage a short term political problem is a case in point that will further damage Australia's reputation as a 'safe' place to invest.

Finally, we don't need any more energy reviews or ill-considered policy interventions. Ultimately, more clear-headed and considered national energy policy that is based on disciplined co-operative federalism and market based mechanisms is required.

Brisbane

Level 8, 10 Felix Street
Brisbane QLD 4000
GPO Box 2605
Brisbane QLD 4001
P 61 7 3227 9500
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Sydney

Level 26, 44 Market Street
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P 61 2 9089 8666
F 61 2 9089 8989

Melbourne

Level 40, 140 William Street
Melbourne VIC 3000
P 61 3 9607 8499
F 61 3 9607 8282



Euan Morton
Principal
p: +61 7 3227 9556
e: e.morton@synergies.com.au



Matt Rodgers
Director
p: +61 7 3227 9560
e: m.rodgers@synergies.com.au