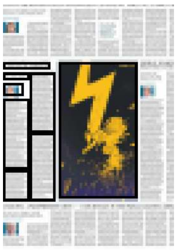


25 Jun 2018
The Australian, Australia

Author: Josh Frydenberg • Section: General News • Article Type: News Item
Audience : 94,448 • Page: 12 • Printed size: 753.00cm² • Market: National
Country: Australia • ASR: AUD 15,217 • words: 811 • Item ID: 973613834

NATION FINALLY GETS A SYSTEM IT DESERVES

The NEG soon will deliver cleaner, cheaper and more reliable energy

JOSH FRYDENBERG

This week a delegation of leading representatives from Australia's business, industry, mining, manufacturing and farming sectors will be in Canberra to make the case for the national energy guarantee. They are part of a broad coalition of stakeholders, unprecedented in breadth, supporting this critical reform to our energy system.

These groups represent millions of Australian workers and are telling their political leaders what must be done. If we can't listen to them now, after a decade of missteps in energy policy, then when? People are tired of the hyperpartisanship and mistruths that have characterised this debate. Unless we effectively manage the inevitable transition to a cleaner energy future, we will not deliver the lowest cost, market-based outcomes that are in the interests of consumers. This is why the NEG is so important.

When the Coalition came to government in 2013, it was bequeathed an energy mess. Retail prices had doubled, having increased each and every year, the renewable energy target had ballooned to 45,000 gigawatt hours and we were saddled with the destructive carbon tax.

Since then we abolished the carbon tax, reduced the RET, reined in the networks, put more gas into the market, increased transparency for retail customers, announced Snowy 2.0 and, most important, turned the corner on power prices. Wholesale electricity prices are down almost 30 per cent this year and large industrial gas users, according to the Australian Competition & Consumer Commission, are seeing up to a 50 per cent fall in contract prices. As of July 1, households and businesses across Queensland, NSW and South Australia will start to see their prices fall. It's working, with more relief to come.

The missing piece in the power price jigsaw, however, is the integration of energy and climate policy. This has eluded us as a nation for more than a decade. Unfortunately, the price for political intransigence has been investment uncertainty, community disenchantment and a less reliable, more expensive power system. The NEG represents the first time we have a policy that is designed by the experts, comprehensively backed by business, supported by states and with modelling indicating it will cut prices and raise reliability. All the ingredients for a durable long-term solution.

There are two new obligations on retailers. The first will see the Australian Energy Market Operator forecast 10 years out electricity supply and demand for each jurisdiction. Forecasts will be based on peak demand, namely during hot summer months and cold winter snaps, and take into account the intermittency of wind and solar, maintenance schedules and unexpected outages at thermal generators. The AEMO will update its forecast each year and in the event it predicts a supply shortfall in the market, it will, three years out from the shortfall, require retailers to provide sufficient dispatchable power to the system consistent with their overall market share. The obligation to meet the reliability requirement will fall to the retailer, not to the end user.

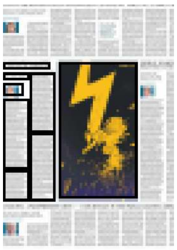
While several generation sources including gas, pumped hydro and batteries can provide dispatchable power, our system's reliability relies predominantly on coal. Under the NEG, the reliability obligation will value our existing coal fleet and see it more likely to be upgraded and stay in the system. Without the NEG, our coal fleet would face an even more uncertain future and electricity prices would be higher.

The second obligation on retailers is to decrease the emissions profile of their portfolio of assets across time. The goal is that by 2030 the emissions in the electricity sector will decline by 26 per cent on 2005 levels. Retailers will manage their portfolio accordingly, deciding on the right mix of thermal and renewable generation sources for them. There is also the flexibility for retailers to under-deliver on the emissions obligation by 10 per cent in any year and make it up two years later. This gives retailers the flexibility to ensure the lowest cost of compliance.

With no new taxes, subsidies or trading schemes, the NEG could not be more different to a clean energy target or an emissions intensity scheme. A CET would see a continuation of the subsidy mentality characterising the RET, and thus was the preferred option of a vocal but dwindling minority on the extreme left of this debate. An EIS, on the other hand, was Labor's 2016 election policy and involves higher-emitting generators buying certificates off less-intensive carbon-emitting ones. It would be a wealth transfer from coal to renewables.

As the NEG approaches the final stages of development and debate, it is worth bearing in mind the broad base of support this reform has. It is for good reason that employer and consumer groups see it as the way forward: it will deliver a cleaner, cheaper and more reliable energy system.

Josh Frydenberg is the federal Environment and Energy Minister.



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