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Energy Minister Josh Frydenberg calls on Australian governments to back NEG



Josh Frydenberg: the National Energy Guarantee "will get the market working again for consumers and drive electricity prices down, reliability up and help us meet our international emissions reduction targets". Eddie Jim

by Josh Frydenberg

At today's meeting of Australian energy ministers in Melbourne, a critical decision will be taken: whether to proceed to the final design stage of the [National Energy Guarantee \(NEG\)](#).

It follows extensive public consultation by the independent Energy Security Board (ESB), the development of a more than 50-page high-level design paper, and an [unprecedented chorus of support from industry, community and business groups](#). From the Australian Council of Social Service to BHP, the Clean Energy Council to the Business Council, and the National Farmers' Federation to Manufacturing Australia, all are on board to progress the National Energy Guarantee.

The guarantee is our chance to secure a lasting consensus and, in the words of the ESB, "resolve 15 years of energy and climate policy instability". In the process, it will get the market working again for consumers and drive electricity prices down, reliability up and help us meet our international emissions reduction targets.

The ESB's paper sets out an effective framework for the operation of the guarantee in three key areas.

First, reliability. The [Australian Energy Market Operator](#) (AEMO) will forecast 10 years out the supply-demand balance in each region of the National Electricity Market (NEM) and identify any gaps in dispatchable power. This is energy available on demand regardless of the weather and which can be called upon at short notice when the system needs it most. This forward-looking assessment will send a signal to the market about what needs to be built, where and when, and with the forecast updated by the Market Operator on an annual basis.

In the event that the market doesn't adequately fill the gap, then three years out, a reliability obligation will be triggered on retailers. This will require them to address the shortfall by acquiring additional dispatchable power. If they then fail to do so, one year out from the expected gap, AEMO will step in as the procurer of last resort. This is a comprehensive and multi-stage process that will ensure the reliability and stability of the grid.

Emissions reduction

Our energy mix is changing rapidly with the growing penetration of intermittent sources of power, namely wind and solar, and the closure of synchronous generators, particularly coal. This is creating real challenges for our system. Last year the Market Operator issued 22 lack of reserve notices calling for additional supply and, following the closures of Hazelwood and Northern power stations, wholesale prices went up by more than 80 per cent. It is in this light that the importance of the reliability mechanism in the guarantee cannot be overstated.

Second, emissions. Retailers will be required to reduce their carbon footprint over time, consistent with our Paris commitment. State renewable schemes will coexist with the NEG, with their contribution to emissions reductions counting towards the overall target. Emission-intensive industries will be exempt from this requirement, consistent with the practice under the [Renewable Energy Target](#). However, unlike the Renewable Energy Target, the NEG is technology neutral, allowing for emissions reductions to occur from all sources of power, be they fossil fuels or renewables.

As stated by the ESB, the guarantee will "utilise existing arrangements and reporting obligations" including the National Greenhouse and Energy Reporting Scheme, which details all energy production and its associated emissions, and a system similar to AEMO's Reallocation Request Service, which lists contract positions between retailers and generators. One of the real strengths of the NEG is that it uses the existing contract market which is so familiar to industry players. In 2015-16, about 250,000 electricity contracts were traded on the Australian Stock Exchange, accounting for 396 terawatt hours which is nearly twice the amount of electricity consumed in the NEM that year.

Third, competition. There is an intense concentration of market share in Australia's energy system. More than 70 per cent of capacity in each NEM jurisdiction is controlled by two or three large generators. Indeed, in South Australia, AGL has a remarkable 42 per cent market share, the highest of any private generator across the national market. Some of the biggest generators are also some of the biggest retailers, with AGL, Origin and EnergyAustralia responsible for servicing about 70 per cent of all households and businesses.

The ESB is highly conscious of this horizontal and vertical concentration and has outlined a series of measures to "enhance liquidity, transparency and level of competition in the retail and wholesale market". This includes requiring in certain circumstances "gentailers" (vertically integrated generators and retailers) to make transparent their internal transfers from their generation to retail arms. With the Australian Competition and Consumer Commission reporting in June on the state of competition in the retail market, there are still more ideas in this area to work through.

The National Energy Guarantee is an opportunity that can't be missed. It's a time for all governments – federal, state and territory – to come together, integrate energy and climate policy and deliver cheaper, cleaner and more reliable power for all Australians.

Josh Frydenberg is the Minister for the Environment and Energy.



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