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OPINION | Oct 9 2017 at 12:00 AM | Updated Oct 9 2017 at 12:00 AM

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Energy policy barbecue-stopper requires a multi-faceted plan



Australia's energy market is a mess that will take time to fix. Alamy

by Josh Frydenberg

Complex energy policy is no longer an academic issue fought out between regulators and big energy companies but rather a barbecue-stopper, with everyone looking for answers.

This is because Australia's electricity prices have risen sharply and people are worried about the stability of the system.

A decade ago under John Howard, prices were the fifth-lowest in the OECD. We have since have climbed 13 spots to be the 12th highest.

It's a ladder you don't want to be climbing, particularly as it hits our lowest-income households the hardest. The bottom 20 per cent spend five times more on electricity as a proportion of their disposable income than the top 20 per cent.

A weaker network

The resilience of our network has also weakened, with load-shedding and blackouts in South Australia and significant stress at peak demand in both NSW and Victoria.

The reality we must face is that the National Electricity Market, which began in 1998 and served us well for nearly 20 years, is no longer doing so.

With a changing energy mix, supply and demand is much harder to predict, and the pricing and dispatch model, which was predicated on marginal cost bidding by generators, is now less suited to the times.

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In an energy-only market, large amounts of wind and solar produce low wholesale prices when they are running, but very high prices when they are not. This volatility creates an uncertain investment climate and makes it more difficult for synchronous generators to recover their fixed costs and remain commercially viable.

It is in this brave new world of disruptive technology and the empowerment of consumers that the Turnbull government is implementing its energy plan.

Faith in well-regulated markets

The principles that guide our plan include faith in well-regulated markets and an abiding commitment to innovation and harnessing new technology to benefit the consumer.

That is why we abolished the Limited Merits Review process and boosted the independent regulator, the AER.

That is why we called in the retailers and agreed with them a wide range of changes to improve transparency and provide timely information in plain English to customers so that they can get the best deals.

That is why we've implemented the most significant reforms to gas pipeline markets in more than two decades, introducing compulsory arbitration in the absence of an agreement between pipeliners and producers.

There is more to be done. We are concerned about market concentration.

Concentrations of power

In each region of the NEM, the two or three biggest generators between them control more than 70 per cent of capacity and dispatched energy. This has been increasing over time. In 2009, the big three – AGL, EnergyAustralia and Origin – had 15 per cent of generation capacity in the NEM between them. Today, it's nearly 50 per cent.

This concentration can affect bidding behaviour, as the companies know their market dominance guarantees dispatch regardless of price.

This is why I have asked the AER to investigate bidding practices by generators with a particular focus on New South Wales. I look forward to receiving their initial findings in November.

Another area where the current market design needs reform is around reliability.

Following the closure of Hazelwood and Northern coal-fired power stations, wholesale price volatility has increased enormously.

For example, in South Australia, the number of price events above \$200 a megawatt hour or below negative \$100 a megawatt hour (which is due to the intermittency of wind generation) has increased by 400 per cent in just the last two years.

Getting the right advice

It is in this context that the Turnbull government commissioned AEMO to provide advice on the adequacy of existing and future dispatchable resources and what action could be taken to fix any shortfall.

The response was unequivocal. Strategic reserves as recommended by the Finkel Review are needed in the short term, together with an appreciation that the closure of Liddell, scheduled for 2022, would leave a shortfall of 1000 megawatts of dispatchable capacity.

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In the longer term, the solution AEMO suggested could be provided by a yet-to-be-specified extended market design change. This could include, "demand-side markets, day-ahead commitments, the articulation of a generator reliability obligation and further approaches to gaining investment in flexible capacity".

The second key principle is the Coalition's commitment to innovation and harnessing new technology.

Just as the mobile phone disrupted the landline and the digital camera superseded film, the energy market is being shaped by the internet of things; behind-the-meter technology such as solar PV and storage; demand-side responses; and increasingly cost-effective utility-scale renewable generation.

Costs fall all the time

Globally in the past seven years, the cost of wind generation has more than halved. Domestically, solar PV costs have dropped more than 50 per cent. By 2020, costs of battery technologies are expected to fall 40 to 60 per cent and, by 2030, over 70 per cent.

It is against this backdrop of a declining cost curve for renewables and storage, greater efficiencies in thermal generation and the need for sufficient dispatchable power in the system that we are considering the Finkel Review's 50th recommendation – a Clean Energy Target – to which we'll respond before the end of the year.

It's a well-worn aphorism that it often takes longer to fix problems than to create them. With respect to Australia's energy policy, we all must ensure that this is not the case.

Our approach in government has been and will be to seek out the best advice from the expert market bodies and use that input to frame our actions.

The actions we are taking cover gas supply, wholesale market structures, integrated energy and climate policy, network regulation and retail competition. They deal with both the immediate priorities as well as preparing for the long term.

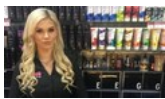
We intend to work with the states and territories to deliver our plan.

If energy policy was easy it wouldn't be the barbecue-stopper it is today. The good news is that we have learned the lessons of the past, we know where we are going and we have a comprehensive plan to get there.

Josh Frydenberg is the federal Minister for the Environment and Energy

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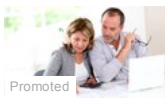


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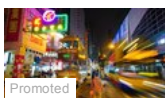
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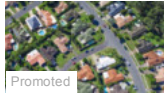
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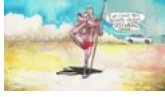


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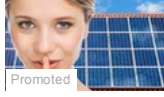


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