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ADDRESS TO THE NATIONAL PRESS CLUB OF AUSTRALIA

POWERING FORWARD: THE NATIONAL ENERGY GUARANTEE

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CHECK AGAINST DELIVERY

A day doesn't pass without a story on energy bills. Indeed, it gets raised with me in all sorts of places, at the football, at a family BBQ and even the other day at my local place of worship, when an elderly man turned to me and said, *"Joshua, can't you do something about my power bill?"*

The answer is yes and we are, and I fully appreciate how important this issue is in peoples' lives.

Today, I want to make three points.

First, to reflect on the enormous change underway in the energy system which has turned accepted wisdoms on their head, disrupted traditional business models and exposed a failure of policy which is reflected in poor market outcomes.

Second, to provide a frank assessment of the polarised political debate on energy and climate and the high price we are paying for it. It's time to tell some home truths. This is a practical problem not one which extreme ideologies can solve. We need to find sensible, workable, affordable market based solutions that meet the requirements of the Australian people. The alternative is policy paralysis, more expensive short term government interventions and higher prices that will be paid by the public either as a consumer or taxpayer.

Third, to make the case for the National Energy Guarantee as the most practical means of delivering a more affordable and reliable energy system while meeting our international commitments. The Guarantee has the fundamental virtue of using the effectiveness of the market and freeing up the policy debate. It addresses the policy and market failure and cuts through the polarisation to integrate energy and climate policy.

1. Change underway

In the year 2000, the National Electricity Market had just three wind farms and two tiny solar farms generating less than 0.1 per cent of supply and more than 90 per cent of power came from fossil fuels.

Less than 1 per cent of households had solar panels, with the rest drawing energy from the centralised grid and its large spinning turbines.

Smart meters, peer-to-peer energy trading and home batteries were still a fledgling idea.

Today the shape of the market could not be more different.

Over the last five years, more than 90 per cent of new generation has been wind and solar. Over the last ten years, a third of our coal fired power stations have now closed and gas prices on the east coast have nearly tripled as parity pricing with the international market takes hold.

Consumers, who once sat passively at the end of the supply chain, receiving a homogeneous product from state owned utilities, are now empowered through technology to choose how and when power is generated, stored and used.

In fact, with nearly 20 per cent of homes now having solar panels – the highest on a per capita basis in the world – the generating capacity sitting on Australian rooftops is twice that of Australia's biggest power plant.

The issue of emissions reduction has moved from the pages of scientific journals to the agenda papers of boardrooms.

Treaties have been signed, commitments made and governments around the world are taking action.

And with firms responsible for $80 trillion in assets supporting climate related financial disclosure, a new variable has been added to the commercial equation. No longer do energy companies and their financiers simply invest based on the dynamics of supply and demand and the basic rate of return on their capital. Questions of climate are now a consideration.

When the National Electricity Market was simply concerned with the delivery of energy which predominately came from coal and gas, the established market signals worked and low wholesale prices followed. But now the new requirement of emissions reduction has been added to the mix and the penetration of renewables has increased. The NEM is no longer delivering the consistently low wholesale prices and the effective signal for new investment which were its hallmarks. It is within this new paradigm that policy must be reframed.

2. The polarised debate and home truths

While change will always create political debate, after more than a decade of national conversation on energy and climate, we have more conflict than consensus. Unresolved, this is harming all Australians and we must come to a landing and a practical solution.

As John Howard said in a headland speech before winning Government, *"The Liberal tradition has always held that ideas are not political ends in themselves, but the basis for developing practical policies that work for the common good."* Energy is no different.

Sadly, positions today are being based on ideology, not engineering.

Ideas are being judged on their provenance, not their merits.

Energy policy in Australia is no longer simply an economic issue. It has also become a cultural one.

As politicians set their battlelines, it is consumers who are the casualties.

This is the hard truth. The future of energy policy must be determined by the proper consideration of the public's best interest not ideologically driven predisposition. The answer lies neither in a war on coal nor the nationalisation of our energy assets.

You can excuse the public's confusion when they hear both ends of the political spectrum sing from the same hymn sheet calling for government intervention in the energy market but to achieve diametrically opposite outcomes.

To end this polarisation of views, proliferation of policies and uncertainty in the market, it is high time for a balanced, enduring, market based and broadly accepted course of action.

Home truths

Rational policy must start with rational debate.

And so to cut through the myths, we need to tell some home truths.

#1: fossil fuels

Fossil fuels have been the bedrock of Australia's energy system, a ticket to our prosperity.

Those who would close coal with haste – as Labor and the Greens are on the record for – would see power bills up and our lights go out. For this reason, you won't hear the Coalition demonise coal.

The closures of the Northern and Hazelwood coal stations in South Australia and Victoria are illustrative. After their closure, the spot price increased by more than 80 per cent within a year, with a consequential knock on effect well beyond each state's borders.

In fact, across the summer just gone, coal and gas produced 82 per cent of the NEM's power. At 7.30pm on 18 January, when South Australia's demand peaked and they most needed power, their wind farms operated at less than 10 per cent of their capacity. South Australia's lights were kept on thanks to gas and mainly brown coal over the Victorian interconnector.

Indeed, last year, 17 of the top 20 generators by output were coal fired.

While fossil fuels will be critical long into the future, we should recognise that our national fleet of 20 coal fired powered stations have an average age of 27 years.

While they may well not live forever, there is plenty of life left in them.

And for that reason, the market has signalled it is more willing to upgrade existing plants where the upfront capital investment has already been made than build new ones. This is because constructing a new coal fired power station would take more than five years and have an uncertain utilisation rate and return on capital.

The importance of gas as a transition fuel must also not be forgotten.

As the energy mix changes, and more gas peakers are required to smooth out renewables, gas is increasingly setting the price of electricity. In 2014, it set the price 13 per cent of the time, compared to over 20 per cent today. But with higher gas demand comes higher electricity prices which are 40 per cent more when gas is setting the price compared to coal.

The answer is more gas.

Victoria, the Northern Territory and New South Wales have a responsibility to do more to develop their resources, not simply import it from elsewhere. With Victoria's Gippsland Basin in significant decline, AEMO is predicting a gas shortfall in Victoria in 2022. The question for Australia's most gas dependent state is: why would you force households and businesses to pay up to 30 per cent more to import gas from interstate or overseas when there is 40 years' worth of supply underground?

The current impasse is an illustration of the pyrrhic victory of ideology over science and economics.

 # 2: renewables

Another home truth is that renewables have developed faster and further than originally thought but these technologies, pulled through with tax payer support, can now stand on their own.

The cost of wind and solar has halved in the last five years.

The head of the International Energy Agency, Fatih Birol, said to me on his recent visit to Australia, that what is driving the rapid uptake of renewables is not so much emission reductions but the declining cost curve.

It has always struck me as paradoxical that the first to say renewables are cost competitive are often the loudest to call for another round of subsidies.

But as we make clear in the National Energy Guarantee, the time for new subsidies is over.

For those who suggest the government is "anti-renewables" for calling out this economic reality, the evidence to the contrary is an inconvenient truth.

Last year under the Turnbull Government was Australia's biggest year ever for large and small scale renewables and more than $12 billion and 7,000 megawatts of investment is now underway. This increased supply has seen the forward curve for renewable certificates at $34 in 2020 compared to $80 today.

According to Bloomberg New Energy Finance, in 2017, Australia was the world's seventh largest clean energy investor and on a per capita basis, the third highest of the top 20 investors. Twice the investment per capita of Germany, four times China and five times that of France.

While this wave of investment, supported by the Renewable Energy Target will lower wholesale prices, it is only one side of the story. This investment has come with a consequence and a cost.

The consequence is that as we've seen with South Australia, the intermittency of wind and solar has created real challenges in the reliability of supply. The cost is that according to the Australian Energy Market Commission the combination of the Large Scale Renewable Energy Target and Small Scale Renewable Energy Scheme adds around $60 to the annual average household electricity bill.

These are the basic truths which make it clear that Government should be providing no new subsidies, be they to renewables or coal. Let them battle it out in a properly regulated, technology neutral market.

#3: climate change

A third home truth is, whether people like it or not, we are moving towards a carbon constrained future.

This reality is shaping our energy system and is part of the decision-making matrix for generators, networks, retailers and consumers.

With the weight of global politics, technology and capital markets all pointing in one direction, former US Energy Secretary Ernest Moniz has said, *"You can't stop the waves crashing on the beach."*

This means dealing with climate change responsibly. Australia beat its first Kyoto target and, since coming to office, the Government repealed Labor's damaging carbon tax as its first order of business and put Australia on track to easily over achieve its 2020 target.

We did this without risking the economy. Since coming to office in 2013, GDP is up more than $200 billion, our population is around 1.5 million larger and nearly one million jobs have been created. The Government is proud of this record and confident of meeting the challenge of 2030.

But with just 1.3 per cent of the world's emissions, we must recognise Australia can't solve climate change alone. Calls to decarbonise the economy overnight are as irresponsible as they are futile. Only international action can make a difference, which is why we join 175 nations in ratifying the Paris Agreement.

But what we will not do is engage in virtue signalling and gesture politics at the expense of our blue collar workers and their industries and our international competitiveness. At a time when power bills are straining household budgets, particularly for low income earners, it is not a time for ideological 'big experiments' and recklessly high emission reduction targets.

3. Our plan

Since the Prime Minister put energy policy on the top of the agenda at this very lectern last year, the Government is effectively tackling all parts of the energy bill through our power plan.

The wholesale price of electricity traded on the ASX futures has fallen around 20 per cent since its peaks last year. I would expect retailers to pass on every dollar of lower costs to their customers. Customers are entitled to insist on this.

Our intervention in the gas market has secured more gas for Australians that was otherwise destined for overseas, ensured three mothballed gas generators came back online and led to contract prices falling, according to the Australian Competition and Consumer Commission, by up to 50 per cent from their highs last year.

We have taken action on networks by abolishing the Limited Merits Review. The inaction by the previous Federal Labor Government on this issue cost consumers up to $6.5 billion.

Since meeting with the Prime Minister last year, retailers have simplified their offerings and written to around 1.6 million households to tell them better deals are available. Nearly one million people have visited the Government's website to compare offers – something everyone should do.

Our investments in Snowy 2.0, other pumped hydro projects and utility scale batteries are laying the foundation for the power system of the future. Energy storage is critical because the stability of our grid cannot be left to the whim of the weather.

While there is always more to do, these actions are bearing fruit.

Integrating climate and energy

But the hardest nut to crack is integrating energy and climate policy.

But crack it we must as, in the words of the Energy Security Board, *"Fifteen years of climate policy instability has complicated long term investment decisions*" and left our energy system *"vulnerable to escalating prices, while being both less reliable and secure."*

As Chief Scientist Alan Finkel simply puts it, *"Business as usual is not an option."*

As a Liberal, I consider the answer lies in a strong private sector and a well-functioning market.

While improvements are needed, to paraphrase Mark Twain, reports of the demise of the NEM have been greatly exaggerated. The NEM, the world's longest interconnected system, emerged from Australia's golden era of competition reforms and has served Australia well.

But if we expect the private sector to invest in the $200 billion of energy infrastructure Australia needs to 2050, it needs to know the rules of the game.

And with the average power station lasting more than 10 elections – Hazelwood itself saw 14 Prime Ministers in its lifetime – investors need confidence that the goal posts won't be continually moved.

So unless people are proposing the government re-nationalise the system and foot the $200 billion bill, the question is this: how do we establish a policy framework that manages the transition; achieves the objectives of lower prices, higher reliability and lower emissions; and provides constancy and consistency through political cycles?

This cannot be achieved through the lens of ideology but rather through markets operating effectively.

The National Energy Guarantee

The National Energy Guarantee is the first and best opportunity for Australia to do this.

Recommended by the independent Energy Security Board, it has galvanised unprecedented support from energy users and producers alike.

According to independent modelling, wholesale prices will fall on average by 23 per cent over the decade 2020 to 2030. Households will be $300 a year better off compared to Labor's policy.

A vote against the Guarantee is a vote for higher prices, higher emissions and less reliability.

What the NEG is and isn't

Let's be clear what the NEG is and what it isn't.

It is a mechanism which uses the existing electricity market, both spot and contract, where energy is already being traded between buyers and sellers.

It places an obligation on retailers to provide sufficient dispatchability to ensure reliability – this is power on demand regardless of the weather – while also requiring retailers to reduce the emissions intensity of their portfolio over time.

This is fundamental to restoring faith in the NEM by driving long term investment in the right technologies at the right place at the right time – an outcome that has to date escaped policymakers both here and abroad.

It is not a new tax, subsidy or emissions trading scheme. It does not collect revenue for government.

It is technology neutral and does not pick winners.

It is not pro-coal or anti-coal; not pro-renewables or anti-renewables.

All technologies will compete on their merits.

It simply provides, according to the ESB, *"A clear investment signal so the cleanest, cheapest and most reliable generation gets built"*.

The Guarantee also provides an in-built check and balance. If a state has a separate scheme to incentivise intermittent renewables, the reliability component will ensure stability is not compromised.

While in my view it would be preferable not to have a proliferation of state schemes, I recognise that states may pursue them regardless.

The Guarantee therefore will not preclude state renewable schemes, but rather will include their contribution to reducing emissions within the overall target.

This approach preserves the Commonwealth's responsibility, as the signatory to the Paris Agreement, to set the emissions target at a pro rata contribution from the electricity sector of 26 per cent.

A criticism I've heard is the Guarantee might limit growth in renewables.

Nothing could be further from the truth. The modelling of the ESB shows renewables under the Guarantee will nearly double from 17 per cent today to between 32 and 36 per cent by 2030.

Market concentration

The Commonwealth, states and the ESB are all focused on the issue of market concentration.

Since 2009, the share of capacity held by AGL, Origin and Energy Australia has gone from 15 to 48 per cent. Across the NEM jurisdictions, the top three players have on average 70 per cent retail market share.

The risks to consumer outcomes is why we've tasked the ACCC to examine the competitiveness of retail electricity supply.

Market concentration is a problem. But just as it wasn't created by the Guarantee, it can't be fixed in itself by the Guarantee.

We are of course vigilant to ensure the Guarantee does not make the situation worse and are thinking about how do we best ensure a deep, liquid and transparent contract market.

It's worth noting that retailers across the spectrum support the Guarantee, including medium-sized players like Powershop who see opportunities to expand market share through innovation.

Conclusion

Let me end where I began, with the concerns of my friend from the Synagogue. The answer is yes we can do something about your power bill. And we are.

The Turnbull Government is putting a comprehensive plan in place which at its very heart has the National Energy Guarantee. This framework is practical and market based and will get the National Electricity Market delivering for consumers.

At next week's COAG Energy Council meeting, the ESB will present a high level model, developed in close consultation with stakeholders and will be seeking the Council's agreement to move to the next phase of detailed design.

The goal is for ministers to agree to the final Guarantee design in August, with legislation passed before the end of the year – federal legislation to set the emissions target, state legislation to enact the mechanism.

To make the National Energy Guarantee a reality, all NEM jurisdictions – Coalition and Labor – need to agree.

And so governments at all levels and parties of all persuasions must put ideology aside and work together to put the national interest first.

The National Energy Guarantee is our chance to secure a lasting consensus.

We must not miss this opportunity to deliver a more affordable, more reliable and lower emission energy system for Australia.

Ends