THE AUSTRALIAN

Frydenberg: We're reforming the energy markets with ideas, not ideology

JOSH FRYDENBERG THE AUSTRALIAN 12:00AM August 21, 2017

There is a revolution under way in energy markets. Driven by rapid changes in technology, it is disrupting business practices in the same way the iPhone displaced landlines and the digital camera made film redundant.

Renewables are playing an ever-increasing role in power generation, creating challenges around the predictability of supply; almost one in five families have solar panels on their roofs, reducing their reliance on the grid; and the internet is empowering consumers to moderate their electricity usage during peak demand.

For government, it is not a question of preventing change but, rather, managing it in a way that ensures energy reliability and affordability remain paramount. There is no silver bullet to lowering energy prices, anybody who says so is lying. You cannot narrow the discussion down to being pro-coal or anti-coal, or pro-renewables or anti-renewables. The issues are a lot more complex.

Our existing coal fleet, which provides more than 70 per cent of power in the National Electricity Market, is ageing and must be replaced over time. Almost all the assets are fully depreciated, meaning that any new plant would be more expensive.

So too with gas. It is not realistic to expect the return to $3-$4/gigajoule that Australians enjoyed less than a decade ago. The creation of an export market on the east coast means that our domestic prices are linked to those overseas, just as they are for other internationally traded commodities such as iron ore, beef and wheat. Nonetheless, there are ways to get prices down and this is where we are focusing our attention.

First, the networks. Up to half the household electricity bill is made up of poles and wires. Under Labor, these costs were out of control and contributed to the doubling of electricity prices during the Rudd-Gillard years.

In 2010, these companies were enjoying a rate of return on their assets of about 10 per cent. Today, it is just over 6 per cent. This means consumers are paying about $3 billion — or up to $300 a household — a year less than would have otherwise been the case.

The Turnbull government is going further by abolishing the networks' ability to appeal against decisions of the independent regulator. Not once have consumers benefited from these appeals; in fact to date it has cost them an additional $6.5bn.

Second, generation. Up to 30 per cent of the household electricity bill is attributed to the costs involved in generating electricity. Recently, these costs have increased, predominantly due to a tightening in supply and higher gas prices.

Tragically, state governments have refused to develop their conventional or unconventional gas fields, despite the detrimental impact such decisions are having on jobs, investment and household budgets.

The most egregious example is Victoria, which despite sitting on 40 years' worth of supplies is refusing to accept a key recommendation of the Finkel report to adopt a case-by-case approach to the development of gas projects.

In the face of state recalcitrance, the commonwealth was left with little choice but to put in place a new mechanism to restrict exports and ensure sufficient gas supplies for domestic users. This action, together with the direct conversations Malcolm Turnbull has had with company bosses, is having a positive impact.

Based on data from the Australian Energy Market Operator, the spot price for gas has fallen from $12 a gigajoule in January to just more than $6 a gigajoule.

Production is up by more than 10 per cent since the end of last year, with more gas flowing from Queensland to southern markets. We are also seeing mothballed gas-fired power plants in South Australia and Queensland secure new supply contracts to enable them to come online.

Reforms to the gas pipeline pricing regime will also have an impact. Compulsory arbitration, greater transparency around pricing, and a new market to trade spare capacity among other reforms could, according to the Australian Energy Market Commission, be worth $3bn to the economy by 2040.

In addition to gas, the other significant development putting downward pressure on wholesale electricity prices is the pressure the federal government has brought to bear on state government-owned generators in Queensland.

In the first five months of this year, Queenslanders paid 30 per cent more for their wholesale electricity prices than other states in the NEM. Government-owned generators were exploiting their market power to push up prices and line the coffers of the Palaszczuk government. But since June, Queensland prices for the 2018 forward curve have come down by more than 20 per cent. This could be worth up to $100 a year for a typical household.

Third, retailers. This represents about 12 per cent of the household bill. The AEMC has found that about half of households have not moved retailers or contracts in five years. This is despite savings of more than $1000 a year being available to those who secure a better deal. Following a meeting last week between the Prime Minister and leading energy retailers, important progress has been made. The retailers have committed to providing better information to customers, including about the expiry of discounts, and guaranteeing that the more than 100,000 Australians on hardship programs do not lose all their discounts if they fail to pay on time.

The government's campaign to shine a light on the behaviour of the retailers has caught the public's attention, with a record 150,000-plus visits to the Australian Energy Regulator's price comparison website.

Fourth, green schemes. Making up to 8 per cent of the bill, just over half of which is at the federal level, these schemes include renewable energy targets and feed-in tariffs for small-scale solar and energy efficiency schemes.

The renewable energy target is far from perfect — it did not require wind and solar to provide storage, nor did it put in place geographical constraints on where the investments took place, flaws that are being addressed. That being said, a bipartisan agreement on the RET was reached in June 2015 and more than 4000 megawatts of renewables are being built or soon will be. The RET target is in sight and the market has set the forward price of certificates at under $50 by 2020 from the $85 they are today. Both will reduce electricity prices.

The challenges we face in energy markets have been building over a decade. In response, the Turnbull government is taking unprecedented action on each and every front based on engineering and economics, not ideology.

These reforms, together with nation-building projects such as Snowy 2.0, are going to make a real difference to affordability and reliability of our energy system.

Josh Frydenberg is the federal Minister for the Environment and Energy.

COMMENT

A nightmare on Wall Street

ROBERT GOTTLIEBSEN

In a scary development, bond traders signal an era of higher US-driven global interest rates. And Australia isn't ready.

The case for fewer lawyers

ADAM CREIGHTON

With so many people graduating from universities, higher education no longer makes good economic sense.

COMMENT

Will Shorten never learn?

GRAHAM RICHARDSON

Australians will never put a truly left-wing party into government. The Labor leader's lurch to the loony fringe will get him nowhere.