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DEMANDS GROW OF AN ENERGY MARKET IN STEADY FLUX

Reform will top the agenda when the COAG Energy Council meets today

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The national energy market is undergoing structural change.

In 2004, coal represented more than 75 per cent of national electricity generation, and in 2014-15 it was about 60 per cent. In 2004, renewables were just over 8 per cent of electricity generation; today they are about 15 per cent, and expected to reach 23 per cent by 2020. And remarkably in 2004, Australia was looking to import gas from Papua New Guinea, but by the end of this decade we will be the world's largest LNG exporter.

When one adds to the mix the opportunities presented from new technologies such as battery storage, smart meters and electric vehicles, it's no overstatement to say the electricity market a decade from now will be fundamentally different to the one we have today. However, not only is it important to acknowledge a transition is taking place but to enable it to take place in a way that delivers affordable, reliable energy as we move to a lower emissions future.

This is why the portfolios of Environment and Energy have been brought together at the federal level — they are now in effect two sides of the same coin.

To this end, the COAG Energy Council is working on significant reforms in three areas.

First, a more liquid and transparent gas market. Gas, with less than half the emissions of coal, is a transition fuel that can power electricity generation at baseload level, particularly at peak times.

Australia has an abundance of gas but domestic contracts are predominantly bilateral, long-term and confidential, thereby inhibiting efficient competition. In contrast, the US has the famed Henry Hub model whereby buyers and sellers trade gas on a short-term basis and the market price is visible to all. Such a model could have real benefits for Australia as we consider at COAG the creation of a new gas market around two major gas trading hubs in Victoria and in Queensland. Moomba in South Australia has the potential to provide significant additional support.

Combined with recommendations around capacity trading on gas pipelines and consideration of an expanded coverage test to the pipeline pricing arrangements, one can see real scope for reform in the gas market, which could be the most significant in decades.

Second, a more consumer focused electricity market that empowers choice in a bid to drive down electricity costs. The advent of smart meters allows consumers for the first time to track their use of electricity on a daily basis. With the potential for networks to offer consumers different pricing structures for peak and non-peak times, COAG will explore reforms to empower consumers to more effectively manage their energy use, and as a result get more control over their bills. At the same time, reforms in this area could reduce the overall demand pressure at peak times on the grid.

In a separate initiative, but on a similar theme, COAG is looking at effective consumer protections for those that use battery storage with their solar PV systems. Many of these households are now exempt from the National Energy Customer Framework and this may act as a disincentive to the uptake of this grid strengthening technology.

Keeping a lid on network costs is also critical when it is considered that up to 50 per cent of household power bills relate to the costs of networks. COAG is looking at the limited merits review process and the way it can be enhanced to benefit consumers.

Third, strengthening the stability and connectivity of the National Electricity Market is a priority for COAG. There are six interconnectors between states that enable these jurisdictions to balance supply and demand, namely to receive more electricity when demand requires it or to send surplus capacity to another jurisdiction as it is created.

The case is now put by some jurisdictions that with intermittent generation, namely wind and solar being used in greater quantities, more interconnectors will need to be built to stabilise the system. Given the cost of these interconnectors can run into the hundreds of millions of dollars, it's appropriate that a rigorous cost-benefit analysis is undertaken. Sometimes, however, these analyses can take years and include an extensive red tape burden. The commonwealth will be leading efforts to reduce this burden so a green or a red light can be given to an interconnector proposal in a more cost effective time frame.

Finally, recent events in South Australia and a greater use of intermittent energy across the grid has raised the importance of maintaining a stable energy supply with a consistent frequency and the necessary ancillary services. This is a highly technical but vital area where COAG is also working on a series of reforms.

Given the nature of our federal system, energy policy is one area where no jurisdiction is sovereign. As a result, the commonwealth and the states need to work co-operatively to ensure the system adapts to the dramatic change now under way.

There is a lot of good will, and today's COAG meeting offers an important opportunity to find common ground for the benefit of consumers and businesses across the country.

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