

Power to ease energy crisis rests with the states

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Federal, state and territory energy ministers meet this week in Brisbane under the auspices of the Council of Australian Governments' Energy Council.

This meeting comes at a critical time for the Australian energy market following the statewide blackout in South Australia, the closure of the Hazelwood power station, and rising gas prices.

What is clear is that in order to create a more affordable and stable energy system, the states need to lift their game — business as usual is not an option.

It is the states, not the commonwealth, that have in the past and still today own a significant proportion of generation, transmission and distribution assets. It is the states, not the commonwealth, that own the resources under the ground. And it is the states, not the commonwealth, that were granted constitutional authority for energy policy.

This is why the national electricity law, which underpins the National Electricity Market, is an act of the South Australian parliament that then applies across other jurisdictions. So what should the states do to strengthen our energy system?

First, gas.

As Australian households and companies feel the pressure of a tripling in domestic gas prices over the past five years, states are sitting on an abundance of domestic reserves, refusing to allow them to be developed.

How can Victorian Premier Daniel Andrews sit by when a food processor in Echuca and a cold storage company in Cobram see their power bills increase by more than half year on year, threatening regional jobs and regional communities?

By locking up more than 40 years' worth of domestic gas resources with restrictions on both conventional and unconventional onshore extraction, the Victorian government is looking to import gas from overseas.

How wacky is that?

Where the Turnbull government is empowered to act, it is doing so, namely taking steps to restrict gas exports to ensure more domestic supply.

But the long-term solution is for the states and Northern Territory to lift their moratoriums and bans. Indeed, Australia's Chief Scientist, Alan Finkel, recommends in his blueprint for reform that states accept the science and approve gas projects on a case-by-case basis as a means of delivering lower prices, more investment and more jobs.

Second, competition.

In Queensland, over the first five months of this year, electricity consumers paid the highest wholesale prices in the NEM, 30 per cent above the average. The reason for this is that generators in Queensland have been gaming the system. Ever since the former Queensland Labor government merged three government-owned generation companies into two in 2011, there has been evidence that market concentration and late bidding practices have contributed, in the words of the Australian Energy Regulator, to “spot market volatility”, code for higher prices.

With government-owned generators accounting for 65 per cent of capacity in Queensland, from 2014 until today the wholesale prices in Queensland have exceeded \$5000 megawatt/hour on 30 occasions. Remarkably, this is almost double the next closest state, South Australia, with 16 incidents during the equivalent period.

The winner has been the Labor government’s coffers; the loser, Queensland consumers.

The Queensland state budget for 2017-18 forecasts a \$1.5 billion windfall from the government-owned generators, a 110 per cent increase on the dividend contained in the 2015-16 budget. An indication of how these high energy prices affect jobs is Gladstone’s Boyne aluminium smelter, where 1000 people are employed. The smelter was forced to cut hundreds of millions of dollars’ worth of production because of higher energy costs, prompting its general manager to say: “Electricity prices in Queensland and the recent bidding practices of generators are putting jobs at risk.”

With a state election imminent and under real pressure from regulators and industry, the Palaszczuk government has dropped its plans to further reduce competition by merging the two remaining generators into one and has belatedly given a direction to its generators to produce more. The fact the forward price curve for electricity has come down by 25 per cent since that direction is an indication of just how damaging the uncompetitive behaviour has been.

Third, energy storage.

It was Malcolm Turnbull who put storage on the national agenda through his commitment to Snowy Hydro 2.0 and record investment through ARENA and the CEFC. However it has been the states, and in particular South Australia, who have not sufficiently prepared for the higher penetration in their own jurisdictions of intermittent sources of power, namely wind and solar.

While we welcome the new battery project announced last week, it needs to be kept in perspective given the scale of the challenge South Australians face. The lithium ion battery is a lot of sizzle for very little sausage, as it will provide only 129 MWh of storage, compared with 1000 MWh of storage at the potential Cultana pumped hydro project in the Upper Spencer Gulf, and the 350,000 MWh of storage from Snowy Hydro 2.0. On any one day, wind in South Australia can provide about 13,000 MWh of generation, of which the new battery project can barely store 1 per cent.

Finkel is very cognisant of the urgency of the storage issue as it relates to the future stability of the grid. That is why the commonwealth strongly supports his recommendation to require wind and solar generators to provide their own storage at a level set by AEMO and for vulnerable jurisdictions like South Australia to have even higher storage requirements than other states.

Energy policy is a complex matter, not only because of its technical side but also because no single jurisdiction is supreme. The commonwealth and the states have proved they can work together to achieve significant reforms as we have done recently in the area of gas pipelines, but there is more the states can do. Opening up their gas reserves to development, encouraging competition in generation and preparing the ground early for more energy storage are cases in point. If they were to undertake reforms in each of these areas, Australians would enjoy a more affordable and stable energy system.

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