

Sorry Josh Frydenberg, but it's a three-point plan to nowhere

[Judith Sloan](#), The Australian, 12:00AM July 11, 2017

Once upon a time, there was a view that rising petrol prices were political death to a government. These days, rising electricity prices have a similar effect, contributing to the demise of a government unless something is done.

The background to this dilemma for the Turnbull government is obvious: after years of rising electricity prices, the latest round of price increases is a whole new ball game. Rises of between 15 and 20 per cent in household electricity prices are now taking effect in the eastern states.

South Australia has the dubious distinction of having the highest retail electricity prices in the world, bumping out Denmark for the top spot. This gold medal position does little for the political standing of the state government. Neither will it help a federal government keen to retain seats in that state.

So what can federal Energy and Environment Minister Josh Frydenberg offer by way of electricity price relief? He claims to have a three-pronged strategy, although there is no discussion of changing or suspending the renewable energy target, which has been one of the main drivers — arguably the main driver — of higher electricity prices.

The three prongs are: removing the appeal rights of the transmission/distribution companies; imposing export restrictions on gas companies; and construction of extra pumped hydro storage in the form of Snowy 2.0.

It's hard to see the public getting too excited about any of these, particularly as their immediate impact on electricity prices will be imperceptible.

The public is crying out for the federal government to do something now and the best it can do is list three arcane and feeble actions.

Let's take each of them in turn. The federal government is of the view that the companies responsible for the poles and wires blatantly game the regulatory system, leading to higher charges than would otherwise be the case. While this may be so, the features of the regulatory system themselves, as well as ill-advised government decisions, have driven the big increases in the charges that are added to the wholesale price of electricity.

Julia Gillard, when prime minister, for instance, set an unduly high standard for reliability and then deemed the rate of return that the companies could earn on their investment. The result was a large degree of gold-plating of poles and wires around the country. Having said this, the shift to renewable energy has inevitably entailed more expenditure by the poles and wires companies as the sources of generation become more decentralised.

Mind you, the impact of this gold-plating has largely worked its way through the system. The federal cabinet's decision to disallow any appeals by the companies in relation to the regulator's pricing decisions flies in the face of the accepted norms of government

involvement in regulated markets. Both Malcolm Turnbull and Frydenberg know better, but let's face it, they are desperate.

Will the loss of appeal rights make any real difference to electricity prices? The short answer is no. And in the future, the companies are likely to pre-game the system because of the absence of any appeal rights. It would be a brave person who thinks this avenue is a solution to high and rising electricity prices.

What can we expect from the Coalition government's decision to limit the export of gas by companies that had legitimately entered into export contracts with the consent of the previous government? In normal circumstances, this sort of action would be regarded as anathema to any political party that believes in the operation of free markets and avoiding action that could be construed as sovereign risk. The conclusion is that the government doesn't regard these as normal circumstances.

The argument here is that the wholesale price of electricity is more and more being set by the marginal price bids of gas-fired power stations. The retirement of coal-fired capacity, particularly the Northern power station and Hazelwood, means that there is simply insufficient coal-fired capacity to set the price.

Now because gas prices are so high — two to three times their historical level — the wholesale price of electricity is rising in tandem with gas prices. The government's hope is that the restrictions on the export of gas will mean more domestic supply, leading to lower gas prices. Throw in some changes to the regulation of pipelines and hope for the best is the federal government's approach.

The best outcome is that domestic gas prices in the medium term will settle at the netback level of the equivalent of international prices minus the cost of liquefaction and transport. But in the short term there can be no assurance that domestic gas prices will fall significantly. Note also that there is a risk that gas companies will cut back their drilling and exploration activity in the context of the new export restrictions.

And then there is Snowy 2.0. Apart from offering the opportunity for the Prime Minister to sketch out diagrams of the scheme for the benefit of unwitting primary school students, let's face it, Snowy 2.0 is way down the track, will cost many billions of dollars, and this government will be long gone when the first drop of water gushes through the tunnels.

Having realised that these three options are unlikely to capture the imagination of the public or have any impact on electricity prices in the short term, the next step of Frydenberg is to blame the states.

South Australia jumped the gun by overinvesting in renewables and allowing its last coal-fired power station to shut down. Queensland has allowed its government-owned generators to cash in on the volatility of the market. NSW and Victoria have moratoriums on gas exploration and exploitation.

The reality is all paths lead back to the RET, which has driven the investment in intermittent energy and sent coal-fired power stations out of business. The Turnbull government had the chance to buy Hazelwood and keep it running, but the Prime Minister showed no interest in doing so.

In the context of an unchanged RET and the possibility of more subsidisation of renewables using a clean energy target that will knock out new coal-fired electricity, the message is clear: get used to sky-high electricity prices and the loss of energy-intensive manufacturing. And the world's biggest battery in South Australia won't make a jot of difference to this outcome.