

## Energy a joke, but no one laughing

Judith Sloan, The Australian, 12:00AM August 15, 2017

The National Electricity Market is on its last legs. What started off as a good idea has descended into a joke, with state governments increasingly going it alone. Throw in some ill-considered federal government policies and the costs of the highly regulated national electricity market are reaching the stage where they will exceed the benefits unless some dramatic changes are made to simplify the system and bring the states into line.

Recall the history of the National Electricity Market. Once upon a time, states did their own thing when it came to electricity generation, transmission, distribution and retailing, with the operating enterprises by and large government-owned.

At first, there was no interconnection between the state electricity grids but some links were introduced before the formalised National Electricity Market. There was a link between Victoria and NSW, courtesy of the Snowy Mountains hydro scheme, and South Australia and Victoria were linked in 1990.

In December 1998, Victoria, NSW, South Australia, Queensland and the ACT became the foundation members of the National Electricity Market. Tasmania joined in 2005.

The NEM operates one of the world's longest interconnected power system. It covers a total distance of about 5000km from Port Douglas in Queensland to Port Lincoln in South Australia, with 40,000km of transmission lines. But herein lies one of the NEM's weaknesses: it is a very long, weakly connected system which does not provide the ideal underlying conditions for the efficient and transparent operation of the market for electricity.

The penetration of renewables, as well as their preferential access to the NEM, has made this weakness even more apparent. There is no doubt the theory is strong: a national electricity market should provide the basis for the lowest cost of provision of electricity while encouraging optimal investment. That the NEM has failed to do so carries a very heavy economic cost for the nation while imposing a burden on households and businesses.

If we look at the operation of the NEM, one standout feature is the proliferation of regulatory agencies. There is the Australian Energy Market Commission, the Australian Energy Regulator, the Australian Energy Market Operator and the Clean Energy Regulator. And just because we don't have an enough empire building in the electricity space, the government will add yet another agency: the Energy Security Board, one of the many unfounded recommendations of the Finkel review of the security of the electricity system.

This is complete madness, particularly as the role of the board will simply be to tread on the toes of the AEMO. But the government is so desperate to be seen to be doing something about electricity prices, the energy minister regularly informs us that 49 out of the 50 Finkel recommendations have been accepted.

Regulation of the NEM doesn't stop at the federal level. The states have kept many of their powers, particularly in respect of retailing and price caps. This makes the system even more confusing.

So why do I say the NEM is on its last legs? For starters, note that the NEM failure has nothing to do with privatisation. In fact, the NEM operated well after most government-owned electricity assets were sold. And note also that Queensland is experiencing considerable problems with electricity prices yet the assets there are largely still government-owned.

One central failing of the NEM is its inability to achieve one of its core functions: to oversee the reliability and security of the electricity system. The actions of a number of states are also undermining its operation; most particularly, South Australia. It is unsurprising politically that the South Australia government would react to the total power blackout and load-shedding that occurred in that state in the past 12 months. That South Australia now has the highest retail electricity prices in the world is not a badge of honour the Weatherill government happily wears.

In keeping with a long political tradition, the government's response has been to throw money at the problem and to make it up as it goes along. A total of \$550 million has been allocated to "solve" the problem, money that this mendicant state doesn't really have.

At first, a bank of diesel powered generators was going to be leased, but this has been ditched in favour of two large-scale diesel powered generators to be located in the south and north of Adelaide. Each will use about 80,000 litres of CO<sub>2</sub>-emitting diesel when they are operating. The cost of these generators is unknown.

Then there is the Elon Musk largest battery in the world — again cost unknown — which will be able to power the state for a few minutes or power 30,000 homes for a few hours.

The South Australian government also thinks it can order generators to switch on to produce electricity even though that power vests with the AEMO. There could be a new government-funded gas-powered electricity turbine. But if all that doesn't look dodgy enough, there's the state's Energy Security Target that requires SA retailers to buy 36 per cent of their power from local sources, rising to 50 per cent in 2025. Even the SA Premier's new best friend Musk thinks that the target is a really stupid idea. It goes completely against the very principle of the NEM.

The Queensland government is also attempting to destroy the NEM by instructing one of its generators, but not the other, to bid low at peak times. Mind you, that government has been more than happy to reap the excessive dividends produced by the gaming of the system by these generators.

But it's not only state governments that are destroying the NEM. Some of the bigger players are behaving in duplicitous and self-serving ways, the most egregious example being AGL. All that marketing tosh about being committed to renewables while coal and gas make up

93 per cent of its output of electricity. (The current chief executive must thank his lucky stars for the prescient decisions of the previous chief executive to buy those coal assets.)

The support of the big electricity generators for the final Finkel recommendation, the Clean Energy Target, has nothing to do with them acting in the best interests of customers. (Recall that these generators are among the band of sneaky, unethical retailers.) We were told that the RET would impart the investment certainty they required; now they want more.

The government should give these companies short shrift and listen instead to the large users of electricity and their threats to move offshore unless something is done about electricity prices.

These large users do not support the CET and their opinion should count for much more than the self-interested electricity players.