

PRESS CONFERENCE WITH THE MINISTER FOR THE ENVIRONMENT AND ENERGY AND MEMBERS OF THE ENERGY SECURITY BOARD

17 October 2017

Parliament House, Canberra

Prime Minister

Minister for the Environment and Energy

Subjects:

National Energy Guarantee;

E&OE

PRIME MINISTER:

Thank you very much. The Energy Minister Josh Frydenberg and I are here today with members of the Energy Security Board - the Chair, Kerry Schott, the Chief Executive of the Australian Energy Market Operator, Audrey Zibelman, the Chair of the Australian Energy Market Commission, John Pierce, and the Chair of the Australian Energy Regulator, Paula Conboy.

Now what we have today is a game changer.

This is a National Energy Guarantee that will ensure that we have affordable power. That it is reliable - we keep the lights on and we can afford to keep them on - and that we meet our international commitments under the Paris Agreement to cut our emissions.

In other words, it delivers affordability, reliability and responsibility.

This is a recommendation from the Energy Security Board established by COAG and, as you can see, composed of the real experts in this field, in the national energy market and its operation.

It creates a level playing field for the first time.

No more industry policy, no more picking winners, no more favouring one technology after another, but simply ensuring that we have a reliable energy system, that we keep the lights on, that we do so in a way that is affordable and, of course, we meet those international commitments.

Why is it so much more affordable than other models?

It provides investor certainty, which the market has been crying out for, for a long time.

It reduces volatility, which, of course, has been driving up prices.

It builds on so many other measures we have undertaken - making sure there is sufficient gas on the east coast market. We've already seen the wholesale price of gas coming down. Very significant move.

Removing the ability, as Josh has recently done, for network owners to appeal against the decisions of the Energy Regulator and thereby game the system to put up those charges.

It is also part of our commitment to ensure that retailers do the right thing by their consumers, and thus benefitting from that.

So this is part of a comprehensive plan to ensure that energy is affordable, reliable and responsible.

And I want to thank the members of the Energy Security Board for these recommendations, which the government adopts, and will take on to COAG, and I want to particularly thank the hardworking Minister for his efforts in bringing together this important policy development, this important initiative.

Josh.

THE HON. JOSH FRYDENBERG MP – MINISTER FOR THE ENVIRONMENT AND ENERGY:

Thank you, Prime Minister.

This is a credible, workable, pro-market policy that delivers lower electricity prices.

It means no subsidies, no taxes, no trading systems. And what it does do is it creates a more reliable, affordable energy system which helps us meet our international commitments.

It builds on the work, the excellent work of the Chief Scientist Alan Finkel.

We accepted 49 out of the 50 recommendations, and obviously, this is a response to his 50th, which was the Clean Energy Target. And it provides us with a mechanism to deal with our Paris commitments and commitments into the future.

Kerry.

KERRY SCHOTT AO – CHAIR, ENERGY SECURITY BOARD:

I'll just outline briefly where this started. The Australian Government asked the Energy Security Board for its advice on how to have an electricity system that

was both reliable, would meet the agreements under the Paris Agreements, and also, be affordable and do what is possible to get prices moving in the right direction.

We gave this advice to the government recently, I think last week, and you have a copy of that advice and I'll just outline the main elements that were in that advice.

Most importantly, the obligation to have a reliable power system is now intimately linked with an emissions reduction target. And if you don't have those two things linked together, you have a danger of an increase in intermittent renewables without having a reliable and dispatchable power to go with it, and it's very important that you always have dispatchable power where you have intermittent resources.

And this is an issue that it is not Australia who is just facing this issue, it's an issue that all countries are facing as the penetration of renewables that is are intermittent is going up.

The other thing that we have recommend is that the standard for reliability, which is basically set by the reliability panel at the AEMC, and then put into practice by the Market Operator, it's basically dictated by physics.

It is what you need for dispatch to keep your system stable.

And in each region, that standard varies because the power mix in each region varies. So if you have a lot of intermittent power, then your need for dispatchable resources is going to be a little bit higher. If you've got a lot of dispatchable resources, you don't need much more.

So we set a reliability standard across the nation, across the market, and then that gets translated into a regional standard which is effectively state by state.

The other thing that we've recommended is an emissions target which is based on the Paris commitment, and the electricity industry will, makes up about a third of the tonnages related to the Paris commitment. You can derive an energy intensity requirement from that. Each of the generators know what the energy intensity is there. So you can tell where we are now, you know where we need to be no 2030 and you can set a course to get from here to there with as least cost and as efficient as possible.

And by placing the obligation on the retailers, they currently go into the market and contract for their load and you are just simply placing two more

requirements on them which they can easily manage as part of the way they manage their contracting now.

So it will all be managed in the market.

Whether or not they're complying with what is set will be regulated by the Australian Energy Regulator, and that's basically the crux of the main thing that's in our advice.

Importantly, what it does is it brings certainty to this industry which has not been here for a long time, and investment has pretty much stalled, excepting for that under the Renewable Energy Target scheme. This will bring more certainty back to the industry, and as soon as we've got more certainty, you can expect that there will be a price response in the right direction.

PRIME MINISTER:

Thank you very much. Questions?

JOURNALIST:

Can we just unpack the prediction of the price reduction? So it's forecast to be about \$110 to \$115 a year starting to 2020 to 2030. Now does it start at that rate? Does it move up? How is the average arrived at? And after we have the technical material clear, if we can ask Josh Frydenberg or the Prime Minister - you say this is a National Energy Guarantee. Are you guaranteeing the price reductions?

KERRY SCHOTT AO:

In terms of the price reduction, I think I'll flick that to John Pierce to answer, as the AMC have done that analysis.

JOHN PIERCE – CHAIR, AUSTRALIAN ENERGY REGULATOR:

So off the back of this work, the Commonwealth Government will be asking the AMC to do detailed analysis and modelling of this specific proposal in the lead-up to the discussions at COAG where we would provide, if you like, firmer estimates of those price effects.

The price numbers you're referring to are based off, if you like, analysis and modelling of the market and the alternative schemes that we've looked at in the past.

It is an average over the ten years.

The more detailed work will give a profile.

The things that are driving it are basically three things. The reduction in uncertainty, that the minister referred to and the unlocking of investment and hence, increases in supply and that's quite an important component.

The second driver, or reason you'd expect prices to be lower is that the mechanism uses existing market processes, existing market contracts, so people have more options available to them about how they meet these obligations.

And thirdly, I would expect that the higher levels of contracting that this mechanism will bring about will lower barriers to entry and improve competition, both at the generation and the retail level.

JOURNALIST:

So is it guaranteed? What's the trajectory? Would you save \$110 on average from the first year in 2020 or does it build up?

JOHN PIERCE:

What I provided is an assessment of what it would be on average over that 10-year period, not a year-by-year number.

The year-by-year number is the sort of thing that would come out of the more detailed modelling that we will do in the lead-up to COAG.

JOURNALIST:

Do you regard that the Government has now settled the energy policy? I note that for the emissions reduction trajectory, that will require legislation to be passed through the Parliament. Do you regard that you've now settled your energy policy, or will the emissions reduction that's imposed in electricity come back to the Party Room for further discussion? Because I gather this morning that various protagonists said that they weren't happy with the emissions reduction component.

PRIME MINISTER:

Well, the Party Room was overwhelmingly in support of the policy, I might say, but we have an emissions abatement task under the Paris Agreement - 26 to 28 per cent from 2005 levels.

As I think Kerry mentioned, the electricity market is around a third - I think it was a little more than a third of our total emissions. So on the basis that the

electricity market bears its pro rata share, you can derive from that an amount of tonnes that needs to be abated then and that would then be the decision of the federal government.

Then, through the mechanism, the Energy Security Board, AMC, AEMO, AER, working together, work out the least cost trajectory of achieving that amount of abatement. And clearly, there is the potential for back-ending a fair bit of it because of declining costs.

So these are all assessments that have got to be taken into account.

And this would be reviewed annually, again by the regulators, because there are other factors that may come into play. Estimates of electricity demand might be too optimistic, for example, and needs to be adjusted.

So, what that means is that the federal government, which is the party to on behalf of the Australian nation to the Paris Agreement. It's the federal government that entered into that agreement. We set that task and then the least cost trajectory is designed and managed by the regulators and operators here represented.

JOURNALIST:

Prime Minister, with regard to the EITE's, the Emissions-Intensive Trade-Exposed companies, it looks like they're possibly going to be exempt from this system. If they are exempt and they're both exempt from the electricity sector, where do you get their emissions from if you are to reach your 26 to 28 per cent, if they're both exempt from electricity costs or you know, from that component? Or they're exempt from their own component?

PRIME MINISTER:

Well, the Emissions-Intensive Trade-Exposed industries are exempt from the Renewable Energy Target and those exempt from that burden would continue to be exempt from the emissions part of the guarantee here. That's the intention.

JOURNALIST:

Prime Minister, can I just ask as to how this will affect Western Australia? Obviously, from 2020, WA will be effectively liberated from the RET. What market mechanism will be imposed on their electricity system to ensure that the emission targets are met?

PRIME MINISTER:

I'll be very brief and then I'll just throw to Josh. This applies to the National Electricity Market, which, as a great West Australian, you would recognise is not all of Australia, but the east coast plus South Australia and, of course, Tasmania. And that is where we have had the big problems in terms of affordability and particularly reliability.

Western Australia and indeed the Northern Territory are not part of the NEM, but there is always, there is the opportunity to import similar principles into those markets, but Western Australia has a very different electricity market to the NEM. It is a capacity market.

I don't know whether Josh or Audrey would like to expand on that?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

All I would say is that there will be an opportunity to enter into the discussions with Western Australia.

Our priority is to sort out this integration of energy and climate policy for the NEM because, as the Prime Minister said, this is where we're finding the dispatchability challenges, but obviously it is the principles that are being set by this method and mechanism that could be extended to other jurisdictions as appropriate.

JOURNALIST:

But it will be subject to emissions reductions targets-

PRIME MINISTER:

Just one at a time. Sarah-

JOURNALIST:

Just to be clear, will be subject to emissions reductions targets post 2020 but they're yet to be negotiated, is that correct?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

The whole working of it, as it applies to Western Australia, would be something to be the subject of another conversation.

The point is we have a National Electricity Market. We have rules which are agreed to by those states. What we're proposing here is to take this policy, as recommended by the Energy Security Board, a function of COAG, to COAG, for adoption.

JOURNALIST:

Can I just ask the regulators, why is this a superior approach to a Clean Energy Target?

PRIME MINISTER:

Who would like to answer that? John do you want to?

JOHN PIERCE:

Okay.

PRIME MINISTER:

Have a go.

JOURNALIST:

What about you?

PRIME MINISTER:

Well I'm not - you're asking the regulators.

JOURNALIST:

You were being asked yourself?

PRIME MINISTER:

Let John answer the question as was asked and then I can turn to you, Michelle, if you like.

JOHN PIERCE:

As Kerry said at the beginning, the way that we approach this is, well, to recognise you can't look at mechanisms to reduce emissions without at exactly the same time looking at what are the things that are driving the reliability of the system. You've got to look at the two of them together.

Past mechanisms that just deal with one of them, say emissions, tend to have negative consequences for reliability. If you just look at them one at a time.

And the beauty, if you like, one of the beauties we think of this is that it uses the existing market mechanisms, the existing contracts that operate within the market.

And those contract forms link the financial consequences for generators, the financial, or the revenues for generators, the financing of new investment, the financial position of retailers - those contracts link those financial variables to the physical needs of the system.

If you can finance an investment through a certificate, which by its nature is not linked to the physical needs of the system, you get investment - sure, you get investment, but you're not getting the right sort of investment to maintain reliability in the system.

So it's superior because it uses existing contracts and doesn't use a certificate scheme.

PRIME MINISTER:

I adopt that answer!

JOURNALIST:

Prime Minister, could you please clarify the future of the Renewable Energy Target under this plan and can renewables stand on their own two feet without, as you said, subsidies and levelling the playing field?

PRIME MINISTER:

As to the second part of the question, the answer is yes.

This is one of the important things to recognise and it is widely acknowledged and, indeed, claimed by the wind and solar industry that they are now competitive with new builds of thermal power.

So there is no need for a subsidy. In other words, they can compete on a level playing field.

In terms of the RET, the Renewable Energy Target, will be in effect filled by 2020.

In fact, I'll ask Josh to say a little bit more about the progress of it.

MINISTER FOR THE ENVIRONMENT AND ENERGY:

Thanks, Prime Minister.

The best advice to me is that the RET is 95 per cent done.

As you know, it was set at 33,000 gigawatt hours, so either there's been a build of that capacity or a commitment to build that capacity with many of those projects reaching FID.

So that is good news for the sector, but the point about the Renewable Energy Target is that it didn't account for one - the geographical focus of a lot of the build, which went to South Australia.

And it didn't account for the need for storage and back-up.

Both of those challenges that were raised by the RET were dealt with by Finkel and have been dealt with by this recommendation.

And I just point out that the reliability guarantee that we are proposing today through the Energy Security Board goes further than what came out of Finkel Review because it is a much more dynamic. It doesn't just apply to new build, but looks at the whole portfolio of assets and it can respond very effectively to the new requirements that AEMO sees fit.

PRIME MINISTER:

It might be useful, just dealing with the question of reliability, for Audrey Zibelman just to say a little bit about the steps that AEMO is having to take all the time to intervene in the South Australian energy market to maintain stability.

AUDREY ZIBELMAN – CHIEF EXECUTIVE OFFICER, AUSTRALIAN ENERGY MARKET OPERATOR:

Thank you, Prime Minister.

So the issue that AEMO is most concerned about, of course, is keeping the lights on and what we've discovered through our experience in South Australia is when you get to certain levels of renewable intermittent generation, the system itself becomes less stable and absent a mechanism like this where there's contracted dispatchable power that's coming into the system, AEMO is finding itself in the position that we actually have to direct generators to come online to provide that stability at the spot price, which is quite expensive.

So what we like about this mechanism is it actually signals what the system needs which is that we need a portfolio of resources that meet all of the objectives of policy - affordability, the environmental objectives and the reliability objectives.

And it's the reliability objectives which are certainly the physics of the system that we could just never ignore.

JOURNALIST:

Just assuming this policy will require some consultation with industry and negotiation with the states and some federal legislation, are you planning a special COAG meeting to kick start this? And do you have in your mind a time frame when you would like to, sort of, wrap a ribbon around it and have it all done and dusted? Like within 12 months?

PRIME MINISTER:

This is COAG in November. This is going to Energy COAG in November.

But I don't preclude the possibility of having a Heads of Government first ministers meeting either in addition to that.

Subsequently, as you know, COAG is very dynamic. We had a special meeting on national security just a little while ago.

MINISTER FOR THE ENVIRONMENT AND ENERGY:

I just want to add to that.

Today with the Prime Minister and with the energy retailers and they will obviously involve themselves in detailed discussions with the Energy Security Board as to the design and the implementation of such a scheme.

JOURNALIST:

To add to the answer that you were giving, how often are you having to intervene in South Australia's market to keep it stable?

AUDREY ZIBELMAN:

Well, recently, we've been intervening quite a bit. And that's because we're at a period of time in the system where particularly on weekends, we're seeing very low levels of usage because of the level of photovoltaics and a lot of wind energy. So we're actually intervening to put on gas energy to maintain the stability of the system.

JOURNALIST:

Prime Minister, Canberra has got the policy wrong so often in the past ten years. What guarantee can you give to voters that this policy is the right one?

PRIME MINISTER:

Well, this is a recommendation from the Energy Security Board, which Canberra, if by that you mean the federal government, is adopting.

We thank them for their recommendation.

You have joining Josh and I here at the table here, you have the heads of the organisations that regulate and indeed, operate the National Electricity Market.

So there is nobody better informed than the men and women who are joining us here at the table today.

JOURNALIST:

Has anyone in this process considered what the mix of renewables, intermittent renewables might look like in 2030 in order to meet those emission reduction targets?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

Yes, the advice from the AMC, the early analysis is that the renewables will be around 28 to 36 per cent and of that, the intermittency, which is the wind and the solar would be 18 to 24 per cent.

This is important. Not all renewables are the same.

Hydropower is baseload power. It is dispatchable power.

Wind and solar need battery storage or pumped hydro in order to have that level of dispatchability.

This is extremely important to understand.

JOURNALIST:

Is that a deal breaker though, to get through Parliament, do you think?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

Sorry, what do you mean?

JOURNALIST:

Having that level of intermittent renewables doesn't seem palatable to some opposition parties - Labor?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

I think as the Prime Minister has made very clear, we have at this table, the combined wisdom of our energy experts in this country.

And we have the people who have come together in a completely non-partisan way to provide the best advice to the government as to how we can deliver reliability, affordability and stay true to our Paris commitments.

JOURNALIST:

A third of the job ahead for Australia according to this plan will be done by the electricity sector. That means two thirds of the job ahead has to be picked up by someone else. It's going to be farmers, agriculture, vehicles. Who is going to be doing the heavy lifting?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

The good news for you, Andrew, is that there is already work under way which is delivering results.

I want to point out that it is often an inconvenient truth that Australia has its lowest emissions intensity on a per capita and GDP basis in 27 years.

So not only has the electricity sector's emissions been falling over the last two quarters but we have been able to abate 189 million tonnes of Co2 through the Emissions Reduction Fund in the land sector.

Through the built environment, we have new efficiency standards that are being rolled out which has seen significant reductions.

JOURNALIST:

But even if this plan gets up, you've got two-thirds of the job to go?

MINISTER FOR THE ENVIRONMENT AND ENERGY:

I would think about the positives of the announcement today rather than the other challenges in other sectors that will be for another press conference.

JOURNALIST:

Prime Minister, the bottom line on the savings to households here, is the best-case scenario \$110-\$115 saving on bills a year from 2020? Or with your suite of measures that you put forward, are there more announcements to come? What do you anticipate is the best-case scenario in terms of savings that you can deliver to the average household?

PRIME MINISTER:

Well, let me first say, and then I can ask, John can elaborate on this.

PRIME MINISTER:

This is reducing the cost burden on families and businesses from high-energy costs involves a number of measures.

We talked about network costs a moment ago and Josh's efforts there. In fact, Paula you might, Paula why don't you say what is happening with the network costs at the moment? The work the Energy Regulator is doing?

PAULA CONBOY – CHAIR, AUSTRALIAN ENERGY REGULATOR:

The Australian regulator, we regulate the amount of revenue that the poles and wires, the networks can recover from customers.

And going forward we're improving the tools that we use in terms of making sure that it is only the efficient cost that are being passed through to consumers.

We're undertaking a review of the rate of return that consumers, that the networks can earn on their asset bases and also ensuring that when they're looking at needs on their systems, that they're not only looking at the network needs, but they're also looking at non-network alternatives to ensure that only efficient costs are being passed through to consumers.

PRIME MINISTER:

And John, why don't you just elaborate on how the impact of this policy is going to have on the wholesale cost, which, of course, are part of everyone's electricity bill?

JOHN PIERCE:

Yeah, I think that it is important that on average - it varies between jurisdictions - on average across the NEM, these wholesale costs are probably somewhere between 30 and 40 per cent of the bill that households face.

So it's that proportion of the bill that we're talking about.

To get to the total bill, other measures that deal with the retail sector and networks also need to be taken into account.

The effect that you would expect from this compared to what we have now, where we have prices higher than they need to be because of the policy

uncertainty, will be a reduction in uncertainty, triggering investment, expanding supply and lowering prices.

And that's just not a theoretical mechanism, it's a mechanism that we've experienced in the NEM in the past, but a past where the environment was different, where there wasn't this policy uncertainty.

We also suspect that because there's no certificates and we're using contracts, that that will also reduce prices and it will increase, improve the ability of new entrants to come into the market and improve competition, which is something that the ACCC raised yesterday.

PRIME MINISTER:

Question Time calls. Thank you all very much.

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