

Pro-coal Nats welcome ACCC call for government to underwrite low-cost power generation



Prime Minister Malcolm Turnbull.



Energy Minister Josh Frydenberg. Picture: Kym Smith

Ben Packham, Greg Brown, The Australian, 2:51PM July 11, 2018

Malcolm Turnbull has signalled support for the competition watchdog's call for government to underwrite the construction of "firm" low-cost power generation, in a move that could end the energy wars within the Coalition.

“We’ll look further at this proposal over the coming months ... but this recommendation has the distinct advantage of being thoroughly technology agnostic and, well-designed, should serve our goal of cheaper and reliable energy,” the Prime Minister told the Queensland Press Club today.

Nationals MPs, who have been critical of the government’s “technology neutral” national energy guarantee, see the recommendation as a way to support new baseload generation, particularly high-efficiency low-emissions coal.

Resources Minister Matthew Canavan and Deputy Nationals Leader Bridget McKenzie expressed their strong support for the recommendation today. “The ACCC has recommended the government underwrite baseload power investments. Once again common sense of @The_Nationals is vindicated!” Senator Canavan tweeted.

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Mr Turnbull said the proposal could be used to promote investment in any baseload technology, including coal-fired power. “It’s technology agnostic. So it certainly wouldn’t exclude any fuel source. We’ve got to stop focusing on one technology or another,” Mr Turnbull said. “It is challenging for people who are not part of the big vertically integrated gentailers, to get finance for new generation assets. “They could be a mix of assets, it could be some renewable, some gas and some hydro. It could be a coal-fired project. It could be gas. It could be biomass or a mixture of all of the above.”

The Prime Minister noted the scheme had the same intention as the national energy guarantee: ensuring there is enough baseload power in the system. He said the suggestion to underwrite the construction of low-cost power generation could ensure there is no shortfall in dispatchable power in the medium term before the market responds to the signals in the NEG.

“Let’s assume we were going to go down the route that Rod Sims recommends, it may be we don’t have to do a lot of it, or do it for very long,” Mr Turnbull said.

“The design of all of this will be very critical, but I think the idea of a put at a low price, and it may be that \$45(megawatt hour) is not the right price, maybe it is \$40 Mwh or \$37.5 Mwh, but you want to hit that mark that would enable more of that dispatchable power to come, more of that investment to come forward. “I’m confident that the NEG will provide those signals in the future, but there is concern about ... medium term gaps in dispatchable power.”

Senator McKenzie tweeted: “Finally common sense in energy debate! @The_Nationals have been calling for govt support to secure investment in baseload power generation- irrespective of fuel source- the ACCC agrees.”

Nationals Leader Michael McCormack welcomed the ACCC report and said the Coalition parties would reach a consensus on energy. “The Liberals and Nationals are working hard to ensure we get cheaper power,” he told The Australian.

The recommendation, to improve competition and generation capacity in the wholesale market, would involve government entering into long-term agreements to purchase power at low-cost (about \$45-\$50/MWh), making the projects more attractive to financiers.

The ACCC report said the recommendation, which would apply only to new market entrants and require them to have at least three commercial customers, would involve “little cost”, as energy prices would have to fall significantly for the government to be disadvantaged.

Queensland Nationals MP Keith Pitt, who has led a backbench push for the government to support investment in new coal-fired power, also welcomed the call for the government to get involved in the energy market. “Clearly, the ACCC report is absolutely scathing. It says the current situation is unacceptable and unsustainable and I agree,” Mr Pitt said.

“As has been reported in the media the Nats have been working internally with our Coalition partners towards practical solution for quite some time. “And the ACC report in my view in my view supports some of the proposals which have been put forward. Whether it is reverse auction with long-term contracts or equity investment, the government needs to get involved to deliver lower prices.”

Labor energy spokesman Mark Butler said the Nationals were seeking to use the ACCC report to support their plan “to throw \$5 billion of taxpayer funds at building new coal-fired power stations”. “For too long, recommendations for sensible change have been lost in the fog of the civil war being waged in the Coalition Party Room over energy policy,” Mr Butler said.

“The ACCC has labelled Malcolm Turnbull’s energy crisis as ‘unacceptable and unsustainable’, but as long as the civil war in the Coalition party room over energy policy continues, policy paralysis will continue, resulting in continued higher power prices for households and businesses.”

Read the report: Frydenberg

Amid calls from National Party MPs and conservative Liberals for a Royal Commission into the energy market and calls from the Greens for a commission of inquiry, Energy Minister Josh Frydenberg urged his colleagues to read the ACCC report.

Asked whether the competition watchdog’s report justified calls for a more comprehensive inquiry, Mr Frydenberg said: “it certainly doesn’t”. “This is the most comprehensive report from our key competition watchdog, and like I said they’ve compelled some 48,000 documents,” he told ABC radio. “There’s a number of recommendations about boosting the transparency in the contract market, which goes to the very heart of what you’ve identified, where vertically integrated generators and retailers have been selling to themselves at particularly high premiums.

“There’s no point calling for another inquiry before you’ve read the report of the last one, and this is a really significant piece of work, and importantly it hasn’t just made recommendations around the network wholesale and retail markets, but importantly it has strongly endorsed the national energy guarantee, and we know that the states and the commonwealth are working closely on this important economic reform.

“We’re hoping to get their agreement in August, but importantly the ACCC, which has no partisan axe to grind in this debate, sees the national energy guarantee as the means to deliver lower prices and it has strongly endorsed the Prime Minister’s leadership on this issue.”

Asked whether the ACCC's recommendation that the government underwrite the construction of a new dispatchable power source would justify investment in new coal plants, Mr Frydenberg said the government was focused on "outcomes, not inputs". "What the ACCC is focused on here is delivering low cost, firm power to the large commercial and industrial users," he said.

"It's also about getting more competition into the market, and the ACCC doesn't specify what form of technology or generation mix should be used. Rather they are focused on delivering dispatchable, reliable power at the least cost."

ACCC lines up energy giants

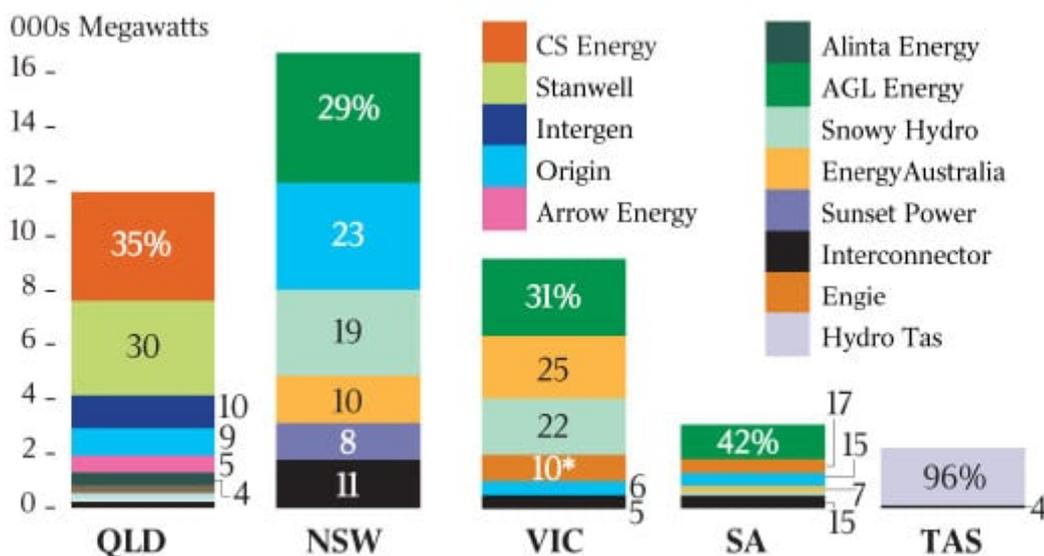
The competition watchdog urges radical reform of the National Electricity Market to bring down prices, claiming the gouging of households and business consumers has reached an "unacceptable" level with widespread abuse of market power by the larger energy companies.

Recommending the most significant shake-up of the power sector since the NEM was established by Labor prime minister Paul Keating in 1995, the ACCC has told the federal government the current situation has become unsustainable, with customers being ripped off by "hundreds of dollars a year" in unnecessary costs. The sweeping investigation into retail energy pricing by the ACCC, commissioned by the Turnbull government last year, has savaged the sector and called for a "reset" of the market to bring down prices and restore confidence.

While it expressed support for the Turnbull government's national energy guarantee, the ACCC report found that the market it would be expected to operate in was broken and consumers faced an "unfair" and "misleading" system.

One of the key recommendations is for government to effectively underwrite the construction of new dispatchable power sources — either baseload coal or gas — by guaranteeing long-term contracts for large industrial and commercial users.

Market share in electricity generation capacity 2017



Western Australia and the NT are not connected to the National Electricity Market

* Engie closed its Hazelwood power station in Victoria in March, 2017

Source: AER

This would make it easier to attract finance for operators that do not already have the advantage of a large market share, and provide investment incentive and certainty. In a bid to rein in the market power of the energy giants, the ACCC has also recommended that any company with more than 20 per cent market share in generation be banned from any further mergers or acquisitions. This would not apply to the construction of new generation.

The report found that large “gentailers” — vertically integrated companies that own both retail and generation businesses — had manipulated prices by charging large premiums on the sale of wholesale electricity to their own retail operations. State governments needed to do more to bring down network costs — the so-called “gold plating” of the transmission network — that make up the bulk of a household energy bill.

Greater powers should be provided to the Australian Energy Regulator to address “market manipulation”, according to a summary of the report, while discounting schemes that can mislead consumers needed to be more tightly regulated.

The final report of the inquiry, commissioned in March last year by Treasurer Scott Morrison, was released this morning by ACCC chairman Rod Sims ahead of the PM’s speech in Brisbane.

The government is not expected to formulate a response to the report immediately. Sources claim it is likely to adopt the bulk of the recommendations.

It comes as the Prime Minister and Mr Frydenberg stare down a minor - rebellion in the Coalition partyroom over the NEG and accusations it is too heavily weighted against coal and in favour of renewables.

Mr Frydenberg told The Australian last night: “The Turnbull government has a laser-like focus on reducing power prices. “Our plan is working and now the ACCC has provided a comprehensive report with significant recommendations for further reform. It deserves careful consideration and will require consultation with the states, a process the commonwealth will undertake.”

The report has found misleading practices by energy retailers in discount offers, with a recommendation that a benchmark be set by the regulator for consumers to compare against rival offers. It has also recommended that the transfer of customers to new discounted offers be hastened and the offers be extended to small business customers as well, while price comparator sites be forced to declare any commissions from retail energy providers.

Most of the reform recommended in the ACCC report would fall to state and territory governments. Mr Sims, who was formerly head of the independent Pricing and Regulatory Tribunal in NSW, has been a long-time critic of the network costs, which have only recently begun to fall.

The report suggests that the market is no longer operating as it was intended and claims that the current conditions are “unacceptable and unsustainable” and that network charges need to come down. By reforming the way the market operated it would “bring down prices and restore consumer confidence and Australia’s competitive advantage”.

The investigation was commissioned because of concern about rising power prices, with the focus on the supply of retail electricity and the competition in retail pricing. The ACCC was asked to investigate the impact of vertical integration — companies that owned both generation and retail business — anti-competitive behaviour, price transparency and profits of power companies and their relationship to consumer pricing. The report claims that “significant gains can be made for consumers and businesses” if the government adopts the recommendations in the report.

With Simon Benson

Generators and retailers 'to blame for power prices'



Liddell power station in Muswellbrook in the NSW Hunter Valley. Picture: AAP

Ben Packham, The Australian, 12:00AM July 11, 2018

One of Australia's biggest electricity transmission companies has sought to blame power generators and retailers for rising household energy costs, preempting a report today by the competition watchdog that's expected to criticise the entire energy sector.

TransGrid, which operates the high-voltage transmission network in NSW, told The Australian network companies were being unfairly blamed for rising power bills.

In a strongly worded statement ahead of today's report by Australian Competition & Consumer Commission chairman Rod Sims, TransGrid declared: "Criticism of network prices in today's market is misguided.

"Network investment is necessary to allow new generators to access the market, thereby increasing competition," the company said. "Lack of investment in networks will only lead to increased prices for consumers."

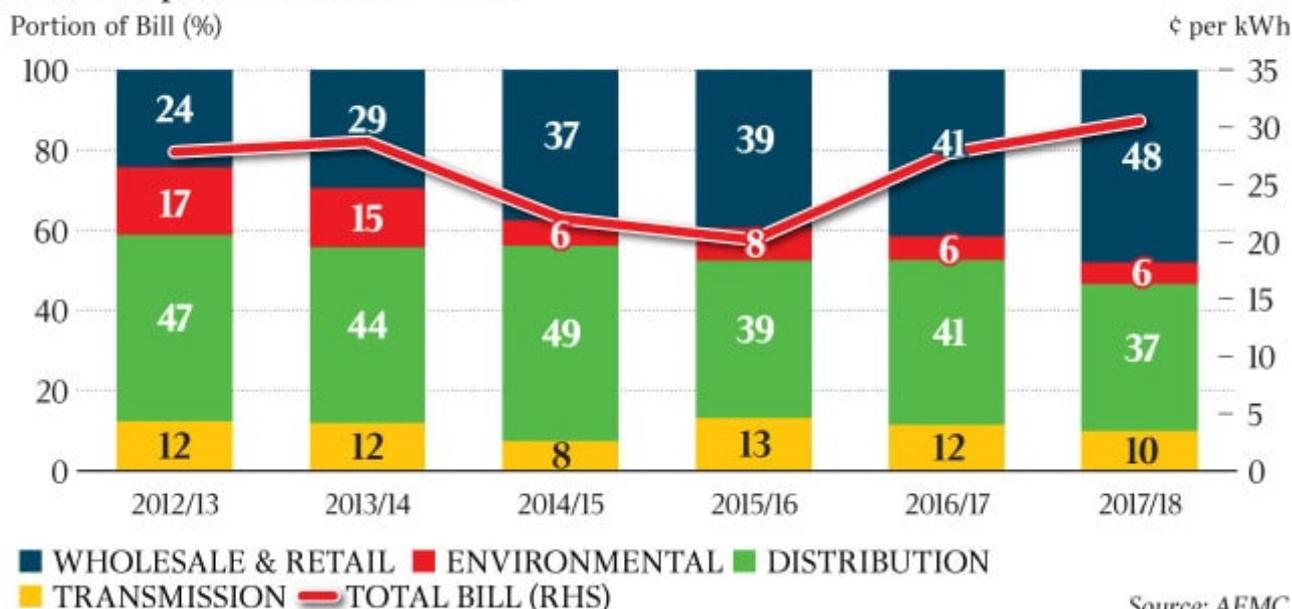
The interim ACCC report on electricity pricing, released in September last year, found increases in residential power bills were "primarily driven by higher network costs" between 2007-08 and 2015-16, when rising wholesale prices took over as the biggest contributor towards rising retail prices.

TransGrid cited Australian Energy Market Commission figures showing the share of household power bills attributed to high-voltage transmission and low-voltage distribution of electricity fell from just under 60 per cent in 2013-14 to 47 per cent in 2017-18.

The share of household power bills attributed to electricity wholesalers and retailers, like AGL, Origin Energy and Energy Australia, increased from 24 per cent to 48 per cent over the same period.

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“Data from AEMC confirms distribution and transmission prices in NSW have been falling, both in real terms and as a proportion of the total bill, for the last six years,” TransGrid said.

“The same AEMC data shows the wholesale and retail components of household bills have doubled over the same period.”

The company said based on the Australian Energy Regulator’s most recent determination for TransGrid, and proposals made by NSW distribution businesses, network costs would fall in NSW for the next five years. It said Australia could learn from the experience in Europe, where strategic investment in transmission infrastructure to support the entry of new generation capacity had significantly reduced wholesale prices, “far outweighing the cost of the new network infrastructure built”.

The Australian Energy Council, which represents electricity wholesalers and retailers, said the closure of more than 4000MW of coal-fired generation capacity had driven up wholesale electricity prices since 2012. “In NSW these include the coal-fired Munmorah and Wallerawang power stations. There has also been the flow-on effect in wholesale prices in the National Electricity Market from the closure of the 1600MW Hazelwood baseload power station in Victoria and, to a lesser extent, the closure of the Northern power station in South Australia,” a spokesman said.

“This plant has not been replaced by firm generation because of the lack of policy certainty over the past decade. Higher gas prices have also led to higher wholesale prices, while there has also been increased retail operational costs over the period.”

Experts have criticised the historic “gold-plating” of network infrastructure as a key driver of rising household energy costs.

Grattan Institute energy program director Tony Wood said regulation of network companies “has been gradually catching up after some pretty poor outcomes”.

“The biggest price rises in the past few years have come from wholesale price rises, but it’s not right to say the networks have been blameless,” Mr Wood said.

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