

## **Big power users eye NEG deal**

Joe Kelly, Perry Williams, The Australian, 19 July

Big power users are close to winning a major concession on planned moves to force them to guarantee electricity supply in a crucial “circuit-breaker” that would remove one of the key industry objections to the government’s energy reform blueprint.

The potential breakthrough comes as the Turnbull government’s energy adviser looks set to stare down concerns that power prices could remain too high under the proposed national energy guarantee.

The Australian has learned that the government’s energy advisory body, in a bid to lock in support from big electricity consumers, is looking at removing a contentious requirement for the nation’s 100 largest power users to be held accountable for ensuring the reliability of supply by either managing their own electricity use or holding suitable financial contracts for electricity supply.

The Energy Security Board — which is responsible for the design of the NEG — has signalled to heavy electricity users it is willing to move on the proposed - “reliability obligation” that is aimed at creating an incentive to invest in dispatchable generation and applies to the largest power users as well as retailers.

The move to lock in support from big power users comes as the government faces the task of convincing Labor state governments to sign off on the plan at a key meeting of the Council of Australian Governments next month.

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It also faces backbench concerns and a noncommittal position from Bill Shorten and federal Labor, meaning it would take only a handful of Coalition MPs to cross the floor to defeat the plan if Labor decided to oppose it.

ESB chairwoman Kerry Schott said she was open to changing the design of the NEG after receiving a series of submissions from business and industry. She noted there were “some helpful ideas in there that we are considering”.

Dr Schott declined to say whether the ESB was considering changes to the reliability obligation which — as currently proposed — would operate on an “opt-out” basis that would force companies to ensure their own supply unless they contracted out the obligation, an outcome that would increase their costs.

However, The Australian understands that instead of operating under an “opt-out” model, the ESB is considering replacing it with a mechanism that would ensure the retailer would automatically manage the reliability obligation on behalf of the business, unless the business chose to “opt-in” and manage it themselves.

Energy Minister Josh Frydenberg has held meetings with many industrial power users about how the reliability obligation would affect them and was open-minded to the possibility of changes.

In its submission to the Energy Security Board, the Australian Industry Group said the “most significant outstanding issue that has been raised” was the proposal that “large energy users be responsible by default for their share of the reliability obligation, with an ‘opt-out’ to pass responsibility to a retailer by agreement”.

“Large users are concerned that this would put them in a weaker negotiating position with retailers, exposing them to costs that would outweigh the benefits that the ESB hopes to achieve by encouraging longer and more predictable contracting,” the Ai Group said.

“We are not fully convinced of the benefits of default responsibility for large users (‘opt out’), and are concerned about the potential costs ... Most large users are poorly placed to manage the reliability obligation themselves (and) they will be in a weak negotiating position when asking retailers to take this on. “Retailers could simply exploit this position to extract more favourable terms, without benefits for overall system cost.”

However, Dr Schott stared down concerns from a range of business and industry groups about whether the NEG would achieve its stated outcome of reducing power prices. “I don’t understand their concerns on prices. The

modelling we did on the previous version showed wholesale prices would come down. And there is no particular reason why the world has changed,” she said.

Mr Frydenberg said yesterday that the wholesale price of electricity would decline by 23 per cent on average over the decade to 2030 and referenced modelling undertaken for the ESB. “For households, it means they will be some \$300 a year better off under the Coalition when compared to Labor’s plan,” Mr Frydenberg said.

The Australian Chamber of Commerce and Industry — which is supportive of the NEG framework — said while early modelling suggested prices might fall, it was “concerned that the draft detailed design does not sufficiently specify how this will be achieved”. “We note that the NEG contains an emissions target and a reliability obligation, but is silent on a cost target or obligation,” ACCI chief executive James Pearson said.

BlueScope used its submission to the ESB to throw its support behind the NEG, saying it supported the objectives of delivering more “reliability, affordable and cleaner energy to Australian consumers”. Rio Tinto said it “strongly - supports the principles of the guarantee, including governments in Australia agreeing to a framework that integrates energy and climate change policies for the NEM”.

The Energy Users Association of Australia said Australians were “desperate to see a lasting national energy and climate change plan that puts downward pressure on electricity costs”.

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