NEG too costly, say big industry energy users

Dow Chemical's Australian president Louis Vega.

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Australia's largest industrial power consumers, including Dow Chemical, Brickworks and Rusal, have warned the national energy guarantee will fail to ease surging electricity prices, with onerous reliability rules and high levels of intermittent renewables distorting the market.

US giant Dow said power prices may remain elevated under the proposed energy policy as high levels of renewable power need to be supplemented by costly dispatchable power sources that may often be unused by the grid. "Although the technology is evolving, batteries are not ready for widespread grid-scale application for extended periods and pumped hydro is not available in all areas," Dow's Australian president, Louis Vega, said in its submission to the Energy Security Board. "Similarly, there is insufficient demand response to offset rapid changes in supply. To recover the cost of large capital investments over short periods of operation, a high power price is required — which challenges the affordability goal of the NEG."

Industry was joined by the labour movement's industrial arm, which attacked Malcolm Turnbull's signature energy policy, arguing it will increase prices and fail to reduce emissions by locking in soft targets for the first 10 years of the scheme. The ACTU warned the government's policy would adversely affect power industry workers, without a plan to transition them into new jobs. The union body also argued that the policy would “increase prices” and entrench the “market power of large retailers” while struggling to enforce emissions and reliability requirements.

“While these issues remain, we are not in position to support the NEG,” the ACTU said.

The plan to make Australia’s biggest energy consumers responsible for the reliability of electricity supply has re-emerged as one of the biggest concerns of industry, which remains concerned it will have to foot the bill and absorb new costs. Rusal, which owns 20 per cent of Rio Tinto’s Queensland Alumina refinery, said the government’s energy reform would increase the market power of the big three “gentailers” — AGL Energy, Origin Energy and EnergyAustralia — as they became responsible for both reliability and emissions targets disadvantaging independent generators and retailers.

“The environment will remain too risky for new investors in low-cost dispatchable generation,” Rusal chairman John Hannagan said. “Consequently, more high-cost, open-cycle gas or storage will be built to firm renewables, pushing up electricity prices.”

Brickworks, a large electricity user in the national electricity market, did not believe large consumers were well placed to manage the reliability obligation under the NEM. “Mandating large consumers to individually contract to their peak load would result in gold-plating generation capacity and a higher cost pass-through to consumers,” Brickworks said. “Instead, a large consumer should have the flexibility to voluntarily opt-in to directly manage their reliability obligation where they believe they can meet this obligation at a lower cost than their retailer.”

The Business Council of Australia called for the government to reject the stipulation in the NEG design that big energy users would be responsible for ensuring the reliability of their power generation. It did not “see the need to transfer the obligation onto large users”, and urged that retailers retain the responsibility to ensure dispatchable generation. The peak business body called for generators to be able to use Australian and international carbon offsets to enable “flexible compliance” with emissions cuts at least cost.

“Access to external offsets will be of increasing importance if, and when, the electricity emissions target is scaled up,” the BCA said in its updated submission. It called for a system of “flexible compliance” that allowed year-to-year variations by retailers without affecting the entire energy market target.

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