

Renewables are coming, but we need to secure supply

The Australian, Angus Taylor, Energy Minister, 12:00AM November 7, 2018

In the Australian electricity sector, the facts and the customers have been victims. Good policy means truth telling, with a relentless focus on the price of electricity. Let's start with facts.

The growing market power of energy companies combined with the unprecedented investment in intermittent solar and wind generation without storage threatens the affordability, reliability and security of our National Electricity Market.

The big energy companies have developed unprecedented market power, and they've used it. Between 2007 and 2014, the public monopolies that own the poles and wires in NSW and Queensland almost doubled their asset bases, receiving a guaranteed return paid by customers.

Meanwhile, the three largest generator-retailers have more than 70 per cent of customers and generation in most markets. It's unprecedented and unhealthy.

Customers who don't negotiate a price each year get a raw deal, paying a large "loyalty tax" for trusting their retailers to deliver fair pricing. Companies have raised prices when generators close down (Hazelwood). Withdrawn supply has not been replaced in a timely way, putting further upward pressure on prices. New retailers struggle to get access to electricity supply, particularly in South Australia where prices are among the world's highest. Gas prices are used as an excuse for higher pricing, but the Australian Competition & Consumer Commission shows it is unwarranted. Any classical liberal or conservative should be incensed by this sustained use of market power.

Meanwhile, the rush into intermittent generation has created big new risks. Solar and wind have an important role as costs continue to fall but we need balance, particularly while large-scale storage is relatively expensive. In the next three years we'll see committed renewables investment of \$15 billion coming into the NEM, a 250 per cent increase in solar and wind, rising from 9 per cent to 23.5 per cent.

Unprecedented emissions reductions are assured, but there are risks to keeping the lights on, serving industrial customers without interruption and

lowering prices. A 50 per cent renewable target in South Australia helped to push coal and gas out of the system, leading to record high prices.

Labor makes the ludicrous claim that its 50 per cent renewables target will lower prices — it will do the opposite. We have not replaced the more than 5000 megawatts of baseload capacity lost since 2012. Baseload generators with falling usage and constant flexing to deal with sun and wind fluctuations have been put at a serious disadvantage and prefer to opt out. We are paying the price.

Some claim eliminating federal subsidies to renewables will solve the problem. The abolition of the carbon tax helped in 2014, as did the reduction of the large-scale renewable energy target that year. But the LRET, which has contributed to the committed investment, will drop to a fraction of its present subsidies within three years. It simply won't encourage new investment.

Others say leaving the Paris Agreement will lead to a miraculous drop in prices. Wrong. Like it or not, we will reach a 26 per cent reduction in emissions in the NEM well ahead of time based on investment commitments already made. Paris won't require new interventions and won't create new price pressures.

The real answer is to refocus energy companies and the entire sector on the customer. The ACCC has made excellent recommendations to deliver this, and the government has committed to most of these.

We can't accept the big companies using their market power to manipulate prices, whether by cutting out competitors, inflating regulated network prices, shutting down capacity prematurely or charging excessive late payment penalties. We'll soon bring forward our big-stick legislation package to stop abuses of market power, complementing recent reforms. Our hope is that using the stick won't be necessary, that the companies will do the right thing. But we will use it if we must.

We also need a strong supply of affordable electricity when customers flick the switch. Electricity runs everything. Affordable electricity must be available on demand and not just when the wind blows and sun shines.

We are working towards a shortlist of electricity generation investment projects by early next year that deliver when customers need it (likely to include coal, gas and hydro), balancing the unprecedented investments in solar

and wind. These new projects will drive increased competition and supply to enhance affordability and reliability.

We need project proponents to sharpen their pencils, bringing forward bankable projects as quickly as possible. We recognise government has no choice but to play a role in underwriting these investments, given the distorted history of this sector, and the unavoidable political risks of future Labor-Greens policies.

We are committed to obligations for retailers to ensure reliability of supply by mid-next year. Requiring investment years ahead to meet expected demand, even when the sun isn't shining and wind isn't blowing, is standard in most developed countries. Many say this is all too interventionist, but we must deal with the world as it is. Previous poor policy is biting years later and the government must act.

Electricity is a public-private partnership in ways other non-essential services are not. Labor, siding with the energy companies, simply cannot deliver its rapid emissions reductions without more exorbitant costs to citizens and businesses. Hardworking families and business demand a better deal on electricity. Our government is determined to deliver that deal.