Alinta urges patience on power

Alinta Energy CEO Jeff Dimery. Picture: Aaron Francis

EXCLUSIVE

Perry Williams, Senior Business Writer, 12:00AM January 22, 2019

Australia's fourth-largest electricity retailer, Alinta Energy, has warned the federal government may have to adjust its expectations of a significant power price cut in 2019, with higher coal and gas costs and issues integrating renewables into the grid delaying bill relief by up to 18 months.

While the country's electricity industry is facing pressure from the government to signal lower tariffs ahead of a federal election, the prospect of significant household savings appears more distant, with high wholesale prices to persist longer than original market expectations.
"Price reductions have been delayed by at least 12 months, if not 18 months," Alinta chief executive Jeff Dimery told The Australian.

"It's due to the high cost of gas and the rally in coal prices, which have been really strong, as well as a number of renewable projects which were slated to come to market but have been delayed due to things like getting network connections and permits."

Electricity futures prices for 2019 have rallied significantly since lows in June 2018 while spot prices remain "stubbornly high", according to a Credit Suisse analysis, which says higher costs for coal and hydro power have offset a growing contribution from wind and solar.

The rising wholesale price expectations mean retail margins may face a further squeeze at current levels, making it more difficult for the country's largest power operators to achieve cuts to tariffs which the government has demanded take shape in mid-2019."At the pointy end of the market where competition is occurring and there is lots of competition, margins are being really compressed," Mr Dimery said. "Most of our major competitors have met us at the market and we've seen a tightening of the margins."

Still, Alinta continues to see big opportunities ahead to sign up more households across the nation, reiterating a plan to achieve a goal of two million customers over the next five years — from 1.1 million currently — in addition to bringing on new sources of generation to its portfolio.

About 1.5 million customers are likely to be on Australia's east coast, with the 500,000 balance in its original West Australian base, although Mr Dimery notes growth will slow from a rampant 2018 due to the margin squeeze.

The power operator was an early backer of the government's plan to underwrite new sources of generation and confirmed it will submit a proposal tomorrow for Canberra to consider backing its proposed 300-megawatt Reeves Plains gas-fired power plant in South Australia. "We've come up with a number of options we want to explore with the government across our portfolio," Mr Dimery said.

While the use of gas for power generation within the national electricity market has declined dramatically in the latter part of last year, Alinta maintains the fuel will continue to play an important role which would help to justify mooted investments such as Reeves Plains. "Their capacity remains critically valuable to the market," Mr Dimery said. "The economics of gas generation has changed but not the importance of gas generation. We think having a fast-start peaking plant coexist with intermittent generation and baseload power is the answer. The reality is that to successfully manage an energy portfolio these days and be competitive you have to participate in the different fuel sources and manage that effectively."

Growth for Alinta is also being targeted through both organic supply boosts and potential deals should the right asset emerge. Alinta will announce a new renewable project next week after canvassing the market for expressions of interest, as part of a $1.5 billion clean-energy investment pipeline either underway or planned this year by the company. “We’ve developed options in SA and also here in Victoria and, importantly, we have a gap in our portfolio in NSW and we’ve got a number of options we are working through,” Mr Dimery said.

“There are also renewables up in the Pilbara and WA so we continue to invest in the industry very heavily.”

Alinta has considerable firepower after Chow Tai Fook Enterprises bought the company in 2017 from private equity for $4bn as part of a wave of foreign investments targeting growth opportunities in Australia’s power and utility sectors following a jump in gas and electricity prices over the past few years. “If we are able to acquire assets that would make us competitive then we are definitely in the market for those,” Mr Dimery said when asked about its M&A ambitions. The company paid $1.2bn in late 2017 to acquire Victoria’s Loy Yang B coal-fired power station.

The Australian Competition and Consumer Commission recommendation last year for the government to underwrite projects, designed to help major industrial users such as manufacturers and smelters, is also an attempt by the regulator to bring a wider number of generation sources to market.

ACCC boss Rod Sims has raised concerns with the structure of the national power market where the big three “gentailers” — AGL Energy, Origin Energy and EnergyAustralia — hold large retail market shares in many states and control more than 60 per cent of capacity in NSW, Victoria and South Australia.
Perry Williams