



Energy Policy
INSTITUTE OF AUSTRALIA

Without the NEG

Will reduction of electricity prices (the government's new energy policy direction) be achieved and will it encourage future investment in generation?

The failure of the Coalition of Australian Governments to agree on the proposed National Energy Guarantee (NEG) scheme explains, at least in part, Australia's recent change of Prime Minister from Malcolm Turnbull to Scott Morrison and the appointment of Angus Taylor as the new Minister of Energy.

In his first speech as Minister on 30 August 2018, Angus Taylor emphasised the unambiguous new direction of the Morrison government's energy policy – *'reduce prices while keeping the lights on.'*

The Minister outlined three (non-exhaustive) focus areas:

- (1) **empowering consumers**, including via a price safety net;
- (2) **increasing competition and supply**, including by underwriting new low-cost generation for commercial and industrial customers, by capping the market shares of generators in each regional market, by re-establishing the confidence to invest; and
- (3) **eliminating strategic pricing** or 'price gouging' – with ongoing surveillance by the ACCC, reported on every six-months..

The Minister's speech raises two principal questions:

Is it likely that the increased focus on customers will cause electricity prices to come down?

This depends on how effective the government's new measures will be.

Focus areas (1) and (3) are shorter-term regulatory responses that most market participants will have seen coming. They may be able to model the price effects with a reasonable level of confidence.

Is it likely that investors will invest in new generating capacity?

The attraction of new investment is another matter altogether.

Focus area (2) is an area of huge policy challenge. As the Minister acknowledged, many baseload generators have already left the market and there is a need to not only encourage greenfield projects but encourage the retention of the existing generating capacity to keep the lights on.

Attraction of new investment into the NEM, which is a spot market, may require offtake support and credit support. This will be more challenging if the government's price-reduction efforts are as effective as the government clearly intends them to be. This puts the government into a 'Catch 22' situation.

A preliminary conclusion – the need for a national vision

From the Minister's initial remarks, it is difficult to be confident that electricity prices will come down, leaving the lights on, without a much more explicit, nuanced and comprehensive policy program that will make the investors come. This may require a fresh look at some of the principal assumptions and recommendations of the Finkel Review.

A new policy program would need to articulate a national vision – starting with a review of the challenges of developing all of Australia's available resources of primary energy, transporting them to centres of demand, converting them to secondary energy forms (electricity and heat) on a technology-neutral basis and attracting the levels of investment that will be required.

Robert Pritchard
Executive Director
Energy Policy Institute of Australia

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