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POLICY UNCERTAINTY STIFLES INVESTMENT

Power giants freeze new projects

EXCLUSIVE

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GREG BROWN

Two of Australia's biggest energy companies say they will delay investment in new generation capacity that could help drive down prices until there is more certainty around the direction of policy, after Scott Morrison's "big stick" legislation to break up retailers who charged too much for power was stalled in parliament.

Origin Energy chief executive Frank Calabria said it would be very difficult to invest with the legislation in play.

"Leaving aside climate policy and the government proposing to underwrite generation, how do I invest money with this in play, with this bill in play?" Mr Calabria asked.

EnergyAustralia chairman Graham Bradley said there was now too much uncertainty around energy industry regulation to invest in new capacity.

"We are in desperate need of the certainty before EnergyAustralia can proceed with investment in new capacity that would replace a Liddell, which we have on the drawing board but will have uncertain returns until we have certainty around the direction of energy policy," Mr Bradley told *The Australian.*

Mr Bradley said the divestment bill — known as the Treasury Laws Amendment (Prohibiting Energy Market Conduct) Bill 2018 — was only the latest in a string of upsets for governance of the sector that would "absolutely" chill investment.

That included a looming decision on expansion of the Snowy Hydro generation scheme, proposed new contracting powers for generators and the effect of "green schemes" on renewable energy investment.

Origin's Mr Calabria said the divestment powers added sovereign risk and significant costs to any investment decision.

The bill discriminated against the "dominant" business model of owning generation and retail assets and would make Origin think twice about new generation investment. "It is the dominant business model because it is able to manage the costs and lower the risks," Mr Calabria said.

Under threats of a High Court challenge to its legislation the government this week shifted the proposed divestment power away from Treasurer's discretion to the Federal Court and challenged Labor to support measures it claimed would drive down prices.

But the Prime Minister's legislation could be stuck in parliament until April because it has been referred to a Senate inquiry.

Opposition treasury spokesman Chris Bowen said yesterday the bill would not get to a Senate vote until April because it was referred to the Senate Standing Committees on Economics.

The committee's report will be handed down on March 18, meaning the bill will be stalled in parliament until budget week, which itself has been moved forward a month to make way for a May federal election.

The Senate referred the legislation to the committee, dooming it for at least six months, just on the strength of voices, with so little opposition that no vote was needed.

Mr Bradley said the delay would not help to encourage investment.

The legislation has sparked opposition from an extraordinary coalition of big energy companies,

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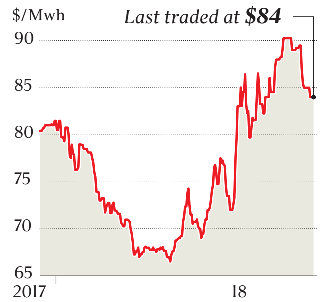
NSW Dec 18 electricity futures



Source: Bloomberg

Calabria

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Power giants freeze new projects amid uncertainty

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big energy users and the broader business lobby because of the haste and secrecy with which it was developed and the three days the industry was given to consider and respond to it.

AI Group chief executive Innes Willox said the legislation should not be rushed through the parliament because it had not been through enough consideration and consultation.

"It unnecessarily goes well beyond the recommendations for market reforms in the ACCC's recent report into improving energy affordability; and it would undermine investment in Australia by adding substantially to the risk business faces of undesirable interference in the economy," Mr Willox said.

"The guns have been drawn in haste and we now have too many itchy fingers on triggers."

Mr Calabria said the amendments this week had improved the bill, but it was still a "hurried and intemperate" move.

"We still don't think they have thought it through."

The "big stick" threat was the latest measure in a years-long campaign by former energy minister and now Treasurer Josh Frydenberg, as well as his successor Angus Taylor and Mr Morrison to drive down electricity prices.

The government had gambled on being able to take lower prices to the election but has had only limited success. Pricing announcements in June and November along the eastern seaboard largely held prices steady as "gentailers" battled a mix of wholesale price moves and rising costs for green schemes and network charges.

Mr Taylor had asked for a "downpayment" on lower energy prices by January 1, with more to come once the legislation was in place in June.

Energy companies responded with a series of double-digit cuts affecting a minority of customers with concession cards or who were on "standing offers" at a cost of tens of millions of dollars each.

Mr Calabria said the legislation was likely to do the opposite of its supposed intention to lower prices because it would discourage the investment that was needed to add generating capacity.

Australia is facing a series of closures of ageing coal-fired generation plants, starting with AGL Energy's Liddell plant in the Hunter Valley.

A rush of renewables, including record installations of rooftop solar on homes, is making coal plants less viable, raising the risk that their scheduled closure will be brought forward.

Mr Willox said the legislation was trying to make up for a decade of inaction on energy policy, which culminated in Mr Morrison's decision to abandon the national energy guarantee that was developed by Mr Frydenberg.

"As AI Group and many other business organisations have been saying for some time, improving the energy market is a vital part of what Australia needs to do to address the decade of inaction on energy policy and we support a number of the measures proposed in the bill which have been suggested by the ACCC. However, this bill tries to make up for inaction in other areas of energy policy by putting forward a set of excessive, dangerous and counter-productive measures."