



# Government must jump-start energy reform before lights go out

**Energy**  
**Our policy mix at present can't achieve three basic objectives: lowering emissions, affordability or even keeping the lights on.**



**Matthew Warren**

Energy ministers will meet next Friday suddenly faced with the very real prospect of an electricity system in peril. The livelihoods of more than a million South Australians depend right now on the decisions they make. So too does the longer-term delivery of an efficient, reliable and sustainable national energy system.

First, it's time to admit we have a problem. Our electricity system is not working. As configured, it is demonstrably not delivering against its three basic objectives: keep the lights on, remain affordable, reduce greenhouse emissions.

This is not the failure of the design of the national electricity market in the 1990s. It is the result of a decade of state and federal government meddling with an extremely complex system. Good policy has succumbed to bad politics on energy. Let's have an emissions trading scheme; let's not; let's just subsidise lots of renewables as they're more popular; let's subsidise lots of rooftop solar as well; actually let's have an emissions trading scheme; let's repeal it; let's do nothing for a while; let's propose even bigger state renewable energy targets; let's freeze development of new gas fields even though we have a tight domestic gas market; let's do nothing to transform the way we use electricity by changing the way we charge for it; let's blame everyone else.

Recent and current political events

(Brexit, Trump) remind us of the growing peril of succumbing to anti-intellectual, anti-expert populism, yet that is precisely what we are doing right now with the nation's energy system. It needs to stop.

Last month during a still, cold snap in South Australia, spot electricity prices spiked, leaving many industrial customers exposed. South Australia sources about 41 per cent of its generation from wind and

solar. This is extremely high by global standards, particularly for a small, relatively isolated network.

Self-evidently, this type of generation mix exposes the state to critical events such as windless cold snaps or heat waves. It was exacerbated by the closure of the state's last coal fired power station in May this year. The Northern power station closed because it couldn't operate commercially given the amount of renewables in the grid.

The situation was exacerbated by the temporary outages of the interconnector

running into Victoria as it undergoes a major upgrade. The state government requested some mothballed gas generators be brought back into service, and a crisis was declared by some commentators.

These events have been predicted by the energy industry and others for years. It is wrong to simply blame renewables any more than it is wrong to simply blame lack of competition in South Australia, high gas prices or suggest some new fossil fuel conspiracy.

South Australia isn't the problem. It's a symptom of a much bigger problem. A decade of political tinkering has left us with an electricity system that doesn't work. It doesn't deliver the right investment in the right place, it doesn't signal a reliable and

efficient transformation from high to low emissions generation, it does nothing to enable greater demand flexibility by empowering consumers to consume energy when it is abundant and conserve when it is more scarce.

Instead we have virtual investment paralysis in new generation in Australia, resulting in a renewable energy target that it still appears unable to reach without even more government support.

This results in curiosities such as: the ACT government sponsoring the latest wind farm in South Australia; or the ARENA grants programme underwriting wind and solar deployment, rather than supporting R&D in new technologies as per its original remit. Neither of these approaches

are suitable for scaling up to the level required.

We have still no clarity about the future role for Australia's existing fleet of coal-fired generators, even though they supply most of our electricity and many will need to be variously phased out to meet current and future emissions targets. We have an abundance of gas reserves to help manage this transition yet we have managed to create a tight domestic gas market, hurting industrial and residential customers.

In the absence of a national energy and climate strategy, state governments are rolling out their own schemes, with scant regard for the consequences. A 40 per cent renewable energy target in Victoria would see more than 50 new wind farms in that state in eight years. There is no plan about how South Australia would get its back-up supply from Victoria when the wind isn't blowing. South Australians have every right to be concerned. If we continue with business as usual this concern will quickly become contagious.

The natural inclination of governments faced with a crisis is to build something. There is an enthusiastic debate about whether South Australia should build more interconnection to Victoria, or NSW, or Queensland or even Western Australia. Others favour installing batteries, or turning the dams in the Adelaide Hills into a pump storage. Many of the loudest voices are the proponents of some of these solutions.

The biggest risk is that we just build a large, expensive, stranded asset that is paid for through higher electricity prices for decades. After all, it's only a few years since NSW and Queensland governments required their state-owned electricity networks to build duplicate assets as a response to blackouts in Sydney and Brisbane, leading to cries of gold-plating from consumers footing the bill for these assets. Remarkably we seem to already be forgetting the lessons of that episode.

The problems in Australia's energy system will not be fixed by a shiny new toy. It's almost certain that new infrastructure will be needed, but we won't really know what to build until we know how it fits into a new and comprehensive national energy strategy. The one we don't have yet.

Energy has historically been seen as stable and low risk. Those days are gone. The new normal is uncertainty; uncertainty about new technology costs, capacity and timing technologies, uncertain demand trends, uncertain consumer behaviour.



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If business is to be expected to build the clean, smart energy system of the future, then it will need government to reduce risk, not add to it. That can and should start this week.

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