

WORK TOGETHER ON POWER

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Governments must co-operate to send the right signals

Following his swearing in as Prime Minister in 2018, Scott Morrison made it very clear what his government's priority would be when it came to energy policy.

I was the minister for getting electricity prices down. Australian consumers would be front and centre of everything we did.

Getting prices down and keeping the lights on gives households greater economic security and freedom to spend their hard-earned money the way they see fit.

Getting prices down allows businesses to create new and better-paid jobs for Australian workers.

Getting prices down supports a thriving, dynamic economy, capable of funding the world-class services we expect and rely on.

This is why delivering affordable, reliable energy is so important, and the data has been clear — we are doing just that.

Prices have fallen sharply for 19 straight months, with wholesale prices around half of what they were a few years ago and the lowest since 2012. Retail prices are down more than 11 per cent in the last 12 months.

We have achieved this while also bringing down electricity sector emissions at a rapid pace.

We have seen record investment in solar and wind — 6.3GW in 2019 and 7GW in 2020, equal to four large coal-fired generators.

Over \$15bn has been invested in new renewable generation in the last two years alone.

Those who argue that Australia is not seeing enough investment in renewables are out of touch with reality.

It has been done with no taxes or national policies that send Australian jobs overseas. That is Labor's way. It is not our way.

All of this is fantastic news. We are winning the trifecta — affordable, reliable and sustainable electricity.

Getting emissions down in our electricity grid is not the hardest problem; this is naturally happening at a rapid rate. Holding the grid together as those emissions come down is far more challenging.

We need balance. We need to ensure that renewables are complemented by reliable generation. This is not about ideology, just a pragmatic focus. It is the responsibility of policymakers to acknowledge this challenge and do what they can to address it.

The security of our electricity grid is important because people suffer when the grid ceases to operate reliably.

The human and financial cost of insecurity is too great to be left unaddressed. We need an electricity grid we can rely on.

So how do we retain that balance? Like it or not, coal remains an important part of our energy mix and will do for many years to come. It provides 66 per cent of our electricity supply in the national electricity market.

That is why it is important that existing coal generators are kept in our system until dispatchable replacement capacity is in place.

Gas will inevitably provide part of the answer, with prices falling dramatically in the last 18 months, and new generators now typically built to be hydrogen-ready.

Pumped-hydro projects can play a strong role and transmission between states can also help bring

more dispatchability into the market. Batteries can also play a role, particularly for shorter periods.

Ultimately we need balance between these technologies and between intermittency and dispatchability.

The government is acting decisively to fill dispatchability gaps in the market where necessary.

Snowy 2 is on track to deliver the largest electricity storage operation in Australia, with costs of storage at a fraction of alternatives. This will allow the increasingly excessive supply of solar to be stored during the day and used when the sun goes down.

We have implemented incentives to encourage the private sector to invest in dispatchable generation, whether it is pumped hydro, gas, batteries or just continuing to maintain existing coal and gas generators.

Our market design must continue to evolve to incentivise investment in the dispatchable capacity.

These investment signals need to be able to operate effectively in an environment where states and territories are increasingly intervening in the market to drive investment in intermittent capacity.

Today, the Energy Security Board will release a consultation paper for the 2025 market design that will focus on strengthening dispatchable investment signals and our grid as we continue to bring our emissions down.

The driving principle is to make fit-for-purpose reforms to market design.

There are three key outcomes the post-2025 work must deliver. The first is the delivery of affordable, reliable power, supported by the right mix of technologies.

This requires strong market signals that both encourage investment in new dispatchable generation to replace our ageing

thermal generator fleet and incentivise our existing thermal generators to remain in our market for as long as needed.

This can be achieved by strengthening the Retailer Reliability Obligation and establishing new markets that value and procure, in an efficient way, the inherent qualities of dispatchable generation which keep our grid secure.

The second outcome is value-for-money construction of new transmission.

This requires clear rules around the development of Renewable Energy Zones to ensure consumers are the beneficiaries, and regulations to cost-effectively deliver interconnection projects.

The third outcome is to ensure we keep up with significant changes in the market, by integrating the unprecedented levels of rooftop solar in a way to keep our grid secure while maximising the benefits for all consumers.

Delivering these market-based measures will create the investment signals needed to secure investment in new reliable capacity without ad hoc interventions.

They will reduce the likelihood of a generator exiting the system unexpectedly.

They will keep our grid secure and operating in the long-term interests of consumers.

It is important all governments co-operate to deliver the reforms that consumers need.

The investment decisions of one jurisdiction have implications far beyond its borders.

An unco-ordinated approach will lead to unco-ordinated investment and higher prices and greater reliability risks.

Disunity works to the detriment of energy consumers.

That's why we must work together transparently and cohesively to deliver the right investment signals and outcomes that are in the best interests of consumers.



Pumped-hydro projects can play an important role in the energy mix

Angus Taylor is the Energy and Emissions Reduction Minister.