ENERGY SCARCE, BLAME TO SPARE – ENERGY SUMMIT VITAL TO THRASH OUT SOLUTION

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Energy policy has been described as the greatest public policy failure created by all sides of politics in 25 years.

It certainly must be a leading candidate. It is a failure that should not have been a surprise.

Almost five years ago, Ai Group declared that "*the gas crunch is here*" and warned that continued uncertainty over energy and climate policy would undermine investment in the electricity sector. This was met with derision and disbelief. Up until late 2016, when South Australia blacked-out and gas contract prices surged past international parity, many policy makers and their supportive commentators thought the idea of a policy failure was mischievously alarmist. On reflection, we were not sufficiently alarming.

Large parts of Australian industry now risk being crushed as their energy costs double or triple. Eroding energy security means businesses can't safely plan. Efficiency and self-generation can help many, but require resources to pursue.

We are now seeing profits eroded, growth opportunities lost and shifts cut.

Businesses facing international competition can't just raise their prices when local costs go up. I remember a senior Chinese government official a few months ago, shaking his head in disbelief after he calculated Chinese companies faced less than half the electricity costs of their Australian competitors.

How did we get here? Both parties in government over the past decade share the blame - both at federal and state levels. Ideological squabbling has obscured the fundamental reality that we are no longer turning Australia's enormous and diverse resources into secure and competitively priced energy.

Some very senior bureaucrats simply dismissed concerns that a gas shortage and market failure could unfold on their watch. Whether they were naïve or afraid of tough decisions, their advice has been bad.

Energy policy experts and lobbyists have gone to their corners unable to see beyond their own books to the wider dangers over the horizon.

We have seen ageing coal fired power stations shut down in the face of escalating costs and no clear policy case for reinvestment. But we haven't seen enough new generation to pick up the slack. Renewables investment is only just pulling out of a politics-induced slump, and gas generation was shrinking until this year.

Various Victorian, NSW and NT governments have locked up their gas resources without regard for the wider energy impact.

More broadly, the energy policy experience has shown federalism at its worst: short term interests pursued without coordination and no eye to the national interest.

And what comes next? The energy market operator says there is a strong chance of rolling blackouts in SA and Victoria over the coming summer and that NSW is at risk in coming years. It is easy to see why governments are nervous about the closure of coal-fired generators such as Liddell.

Visiting leaders of global companies ask how an energy superpower could allow this to happen. We risk becoming a laughing stock – or a cautionary tale.

Ai Group can't see material new local gas supply until the early 2020s. Major new gas fields, east-west pipelines, or a proposed gas import terminal would take years to arrive. Only diverting gas from export can help in the near term. Commercial swap deals are best, but it is vital that the Federal Government maintain the pressure for these by proceeding towards invoking export controls for 2018.

Futures markets say electricity prices will come down a bit as gas generators reopen and wind and solar comes online. But more supply is needed, especially as coal power stations retire. Variable renewables are getting cheap, but they bring a need for investment in dispatchable power to back them up. It can take years to get a new project built – perhaps eight years for a new coal generator, even if it was bankable – but the current RET tops out in 2020 and beyond that the investment case for any technology is cruelled by uncertain policy.

Chief scientist Alan Finkel deserves credit for an excellent blueprint for solving our energy challenges. It is pleasing that 49 of his 50 recommendations have been accepted.

The remaining recommendation for a Clean Energy Target (CET) awaits its fate. For most businesses, some form of CET, although not perfect, appears to be the best remaining way forward – subject to a final design that meets tests for competitiveness and reliability.

Clarity in this policy area is essential if owners of coal-fired generators such as Liddell are to make sensible decisions about re-investing, maintaining or closing operations.

Another round of prolonged squabbling over a CET would be the final straw for many in industry. There is no time to waste. We need an agreed bipartisan pathway forward.

Industry is simply over it. Businesses will as much as possible work through this price cycle, finding cheaper alternatives and introducing efficiency measures where possible, but a further period of high prices or frequent blackouts would decimate confidence. We need clarity, coordination and continuity now.

A good start would be for the Prime Minister and Opposition Leader to recognise the national tipping point, put their differences aside and hold a national energy summit to get durable national policy in place.

Locking the Government, Opposition, Premiers, energy suppliers and industry and other energy users in a room until a path forward is agreed might be the catalyst we need for certainty over price, supply and emissions targets.

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