

Australia on hold until energy mess is sorted out

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An Ai Group member running a national company with an international parent showed me his electricity bill last week. It had doubled in the past year. His European head office pretty much told him to forget further investment while they considered their options.

This is a typical experience and our close liaison with our industrial members finds that the cost of electricity for many industrial users (excluding network charges) has risen over the past two years by 106% in Queensland, 150% in NSW, 163% in South Australia and 168% in Victoria.

It is not surprising then that power has in recent years gone from a top-10 to a top-four expense for a wide cross-spectrum of businesses.

Enough is enough. By turning an obvious strength with our abundant coal, gas and renewable resources into a competitive weakness, Australia has gone from a potential energy powerhouse to being put in the too-hard-basket in some international boardrooms.

It is not too late to turn things around but there needs to be bipartisan and nationally coordinated political and policy action. And it needs to happen now.

We need short-, medium- and long-term solutions to our malaise or else we risk losing competitiveness, real investment and jobs.

Energy security, affordability and sustainability must be at the top of everyone's list of national priorities. We need to elevate these to leading priorities on behalf of households whose bills are rising; on behalf of industries – particularly the more energy intensive industries which, without action on reliability and affordability face an existential threat; and, of course on behalf of the many thousands of employees who work in these industries and along their supply chains.

For our trade-exposed manufacturers, the costs of higher energy prices and the costs of the buffers needed to protect against unreliable supply cannot simply be passed on. Their competitors in other countries where energy supply is better managed will be only too keen to step up and supply customers both in our export markets and in our domestic market.

Among the immediate steps is finding ways to encourage businesses and households to flatten out and reduce energy usage. Becoming more efficient in our energy use can make a real difference. It is particularly important for the times and places where lower demand can cut systemic costs. We need to better use existing resources and there is a lot that individuals and businesses can do in this regard. Demand response systems can stabilise the grid, for instance, by remotely turning thermostats in fridges and air conditioners up a degree for an hour. Governments could lead the way on this.

We also need agreement between the Commonwealth, States, industry, environmentalists and rural communities on how to get gas out of the ground. Abundant gas on the east coast is locked up by State bans. We have more gas on the west coast that we can't get east. Meanwhile tight gas supply and higher prices are damaging industry and driving much of the recent surge in electricity prices.

Arbitrary bans are nonsensical and damaging. Now is not the time for timidity. We must surely be able to access our considerable reserves of gas on a carefully evaluated, case-by-case basis with firm regulation based on science to ensure environmental and aquifer impacts are managed properly.

We must also be able to reward our farmers who choose to utilise their land for gas development – such as with direct access to royalty payments to reinvest into their land.

Then we need to settle an energy market design that allows all energy sources – coal, gas, renewables and even nuclear – to compete to power our industries and households. Those that can deliver low-cost power, increase system stability and help meet our international emissions reduction commitments should prosper. There is room for diversity in our energy system – but not ideology.

A new coal power plant would take five to ten years to go from idea to production. Apart from questions currently around emissions intensity, flexibility and bankability, we don't have that long to wait. But the technology should get its chance in the marketplace.

The cost and performance of renewables and energy storage are improving fast, but right now there are limits on how high wind and solar usage can go without costs escalating and stability declining. As a result, gas power is by far the most available option at scale for stabilising the grid. Those challenges can be solved, but they are simply ignored by feel-good State renewables targets. The States should drop their targets and work together with the Commonwealth on a national energy policy and national greenhouse gas emissions reduction strategy.

Meanwhile, further amending the Commonwealth's 2020 Renewable Energy Target would wreck the only bipartisan certainty business has in the energy space and provoke more State action.

The time for a reality check is now. When South Australia's industry and the shipbuilding program have to install expensive, dirty and typically idle diesel generators just to keep their doors open – you know we have a problem if not a crisis.

With Hazelwood closing in six weeks, South Australia becomes perilously dependent on supply conditions in NSW and Queensland, not just Victoria. As an Ai Group member told me, that's a very long extension cord.

We now have a national economic security problem. If global boardrooms turn their back on Australia over energy or businesses are forced offshore, it will represent the biggest collective policy failure in decades.

Delivering the much vaunted trifecta of energy reliability, affordability and sustainability needs bipartisan and national cooperation. Fixing the current debacle is a massive test of our political leadership and our federal system.