

Ai Group Energy Breakfast with the Prime Minister –

Opening Remarks by Innes Willox, Chief Executive Australian Industry Group

National Press Club Canberra

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Good morning all. On behalf of Ai Group I am delighted to welcome you all to this special breakfast discussion of the Federal Government's major new electricity policy with the Prime Minister and key experts.

The fact that so many of you have come at such short notice shows how worried we have all become about energy and climate policy.

That concern is well placed. The Government's new proposal, the National Energy Guarantee, comes at a time of deep crisis for Australian energy and all who depend upon it.

The price of electricity and gas has soared. Ai Group continues to hear every day from businesses across Eastern Australia whose next energy contracts will cost them twice to three times what their last contract did. Our trade competitiveness is at risk, and households are under pressure.

The adequacy and reliability of supply is under question. Gas shortages have been projected over the short and longer terms. Electricity supply will be tight in South Australia and Victoria this summer, and further retirement of generation capacity without replacement would see New South Wales in trouble.

Australia's greenhouse gas emissions have fallen since their all-time peak in 2006, but in recent years they have drifted upwards. Yet governments across Australia are committed to substantial reductions in our overall emissions to fulfil the Paris Agreement. The electricity sector cannot do it all, but it is an essential part of the response.

In 2015 most people hadn't ever heard the word 'trilemma'. Today the energy trilemma is almost a cliché. But it is true: these problems are all interlinked. You cannot solve one: you have to solve all, or none.

Getting prices down requires more supply. But the cheapest new supply is increasingly likely to be intermittent renewables, and that requires firming for reliability. What's the business model for that dispatchable capacity? And nobody is likely to invest in new generation of any sort, clean or dispatchable, without clear guidance on the climate policy those long-lived assets will face.

Deep political divisions over the basic shape of climate policy have been holding back the investment we need to bring down prices as well as emissions and to increase reliability.

In climate and energy policy there are many ways to skin a cat. Over the course of a decade of political warfare and policy reversals we've tried nearly all of them, but it is not the cats who've lost their skins.

Against that forbidding and perilous backdrop the Federal Government has been listening to the pleas from industry and many others to sort energy out.

In recent months we've seen substantial progress on the gas crisis, with exporters guaranteeing supply for the next two years and prices subsiding from the catastrophic to the merely awful.

There is breathing space for all of us, the States very much included, to get supply and demand into long term balance and ensure prices are driven as low as we can sustain.

In electricity we have seen the Finkel Review reform blueprint largely agreed and beginning to be put into effect, including the new Energy Security Board from whom we will hear shortly.

Earlier this week the Prime Minister announced the keystone for these reforms – the missing piece that enables the whole to bear weight. That is the National Energy Guarantee: a pair of linked requirements on electricity retailers to ensure that the portfolio of energy they acquire is clean enough to meet an emissions standard and is covered by enough dispatchable capacity to meet a reliability standard.

It is early days yet, and Ai Group continues to consult with our members – including many of you here today. But the early signs are that this is a workable system that can be made to keep power reliable and reduce emissions, while giving the electricity market flexibility to do so at least cost.

However, to come into effect and be taken seriously by investors the Guarantee will need wide and sustained political support and compromise. There are some thorny questions here, particularly around where to set the ambition of the emissions target – and how to adjust that over time.

We are just at the start of an intense conversation between the Commonwealth and the States, the Government and the Opposition, with industry and other stakeholders very much at the heart of it. We all have so much at stake here.

I think you'll agree that we are very fortunate to have the chance this morning to hear directly from the Prime Minister and members of the Energy Security Board about the policy and to understand better how it can be made to work for all of us.