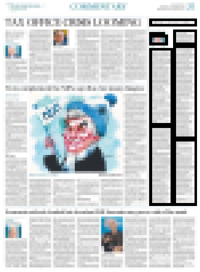


The Australian, Australia
10 Oct 2018, by Innes Willox

Business News, page 25 - Size: 348.00 cm²
National - Circulation: 94,448 (MTWTF)

ID 1019965734 **BRIEF** INDGROUP

Energy impasse drags on with prices set to soar

INNES WILLOX

Australia is again in deep trouble on energy and climate policy. Despite the recent efforts that brought us to the brink of policy consensus, we're still not there, and industry is once more watching key energy costs drift up to back-breaking levels. That drift threatens to drag Australia on to the economic rocks in the months and years ahead.

Let's start with gas — an essential commodity for big parts of manufacturing, agriculture and mining, not to mention households. Under the current policy regime of oil-linked export parity pricing, the federal government's hope of driving pricing into single digits per gigajoule looks doomed to fail.

Earlier this year, the federal government's threat of export controls won supply commitments from the Queensland LNG export industry. It helped. Scarcity eased, and prices dropped to $8-10/GJ.

Today, instead of prices of $8-$10/GJ which would take industry to the fringes of economic competitiveness, the latest predictions from the ACCC suggest prices around $15 by January.

That is not the $24 price we saw being quoted last year, but sustained prices at the $15 level — more than four times their historic average — threaten the long-term viability of many high-employing and strategically critical Australian businesses.

Oil-linked export parity pricing now dominates domestic gas prices. And oil prices have risen steadily. The current export control legislation is a useful insurance policy against a supply crunch but incapable of holding back oil-linked price rises. Overseas turmoil could push oil prices higher and further raise gas prices for local industries, which would pay just $4/GJ if they were in the US, where gas is not priced against oil. Something is amiss in global gas pricing and Australian industry is getting the worst of it.

High domestic gas prices also mean higher electricity prices.

Wholesale power prices jumped in 2017 as the closure of clapped-out old coal plants and a drought in power investment left the market more dependent on gas generators, whose fuel costs were rocketing. While RET-driven supply should be easing future prices, since June this year the 2019 power futures have risen sharply, pushed by rising gas prices and low water storage that will constrain hydro generation and potentially coal-generated supply.

Reliability is a longer-term challenge. The Australian Energy Market Operator forecasts plunging electricity reliability in NSW and Victoria in the early 2020s without investment in dispatchable energy. Meanwhile, investment is hamstrung by deep policy uncertainty, deepened by the federal government's abandonment of the National Energy Guarantee and, it appears, any further effort to address emissions in the electricity sector. Economy-wide emissions are rising. We are far off our current Paris commitment of 26-28 per cent below 2005 levels by 2030. Even deeper and longer-term targets are increasingly discussed internationally, and have already been adopted by most Australian states.

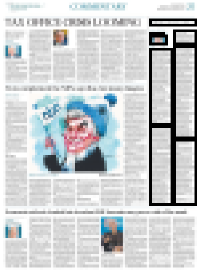
Energy productivity — squeezing every possible dollar from each unit of energy used — is key to costs, reliability and emissions. Australia's National Energy Productivity Plan targets a 40 per cent improvement off 2015 levels by 2030. But official figures show our energy productivity flatlined in 2015-16 and lifted by less than 1 per cent in 2016-17. The Australian Alliance for Energy Productivity says that puts us well off track.

All of this makes us more vulnerable to high prices, leaving much to be done.

Energy suppliers need to prioritise the long-term health of their domestic market. Some new electricity generators are signing user agreements that trade super-profits in the current tight market for long-term secure revenue. Gas producers could do likewise. Most gas produced today is profitable at prices well below current export parity. Insisting on high oil-linked prices will see local demand for gas sag as customers switch fuels or close their businesses.

Energy users can take some control. Businesses like BlueScope Steel and Orora are using efficiency, energy management and innovative contracting with large renewables projects to cut bills. Committing early to new power projects, gas exploration or import terminals is not for everyone, but can unlock savings. Ai Group, the Clean Energy Finance Corporation and the Energy Efficiency Council recently released concrete guidance for manufacturing gas efficiency.

The states need to act responsibly. Well-designed and co-ordinated state policies can improve confidence amid commonwealth dysfunction. They should support market-



The Australian, Australia
10 Oct 2018, by Innes Willox

Business News, page 25 - Size: 348.00 cm²
National - Circulation: 94,448 (MTWTF)

ID 1019965734 **BRIEF** INDGROUP

wide reforms like a demand response mechanism and accelerate smarter network pricing.

Victoria and NSW should make it easier to produce gas; recent NT fracking reforms demonstrate firm but workable regulation.

The federal government could make uncontroversial gains by sharply increasing support for energy productivity through finance, capacity-building and improved rules.

In gas, they should make clear that future LNG export capacity will face close scrutiny on price and supply impacts, and continue pro-competition reforms including use-it-or-lose-it on gas tenements.

In electricity, the federal government has stepped back from the energy trilemma of affordability, reliability and emissions reduction and disclaimed the possibility of investment "certainty" as it pushes for lower prices. But 2019 prices are set to be as high or higher than today.

Government cannot abolish risk.

But it has a responsibility to deliver clear rules.

Innes Willox is chief executive of the Australian Industry Group.