

# Minister has his fingers on the right switches

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Energy Minister Angus Taylor has mastered his brief quickly and has firm plans to force down electricity prices and shore up the reliability of the national electricity market. This much was clear from his presentation at the Economic and Social Outlook Conference.

Because of the recent surge in investment in large- and small-scale renewable investment, the government's Paris emissions reduction target of 26 per cent by 2030 will be met by the electricity sector early in the 2020s. It is now a non-binding constraint.

In this context, the two priorities for the government are to ensure the electricity system is - stable and reliable and that electricity prices for households and businesses are reduced in real terms.

There is no doubt that parts of the eastern electricity market are currently under stress, particularly in Victoria. The Australian Energy Market Operator intervened in the market 25 times last year. In the seven years up to then, AEMO had intervened fewer than 25 times in total.

The fact that the Energy Security Board, under Kerry Schott as chair, is now focused on defining the required level of reliability as well as imposing this obligation on retailers is completely appropriate. The states and territories that are party to the NEM have every incentive to co-operate.

The real challenge for the NEM is how to manage the combination of the large new licks of intermittent energy, both wind and solar, which have been allowed to develop without any firming back-up.

The chief executive of Powershop and Meridian Energy Australia — a small vertically integrated company that is half-owned by the New Zealand government — quoted in the same session figures for new firmed solar and wind projects in the range of \$60 to \$80 per megawatt hour. In his view, these figures are lower than for new coal-fired power stations. Moreover, new large-scale solar and wind projects can be completed within 18 months compared with five to six years for coal-fired plants.

There are two points that should be made. First, these wholesale prices are still nearly double the historical figures that prevailed until the middle of last decade. Second, the prices that - renewable project operators can quote are partly the result of the lower cost of capital they can secure because of the various government interventions such as the renewable energy target and state government reverse auctions.

Were coal projects able to enjoy this same advantage, the prices they could offer would be lower than \$60 to \$80 per MW/h and would not require any external firming.

The hope is that the government will act on the ACCC's recommendation of underwriting some new large-scale dispatchable plants.

Incidentally, the bizarre proposal of some businesses to do their own thing when it comes to emissions reductions can be easily dismissed. Like most cartels, this one is likely to quickly break down as businesses seek the cheapest reliable sources of power.

If businesses want to impose some sort of shadow carbon price on their investment decisions, good luck to them, but their shareholders and customers will need to bear the consequences of doing so.