

Energy Politics and Elections

Energy policy is back on the front page and will remain there until after this week's COAG Energy Council Meeting.

Some of this media is just spurious. The piece, "State of anxiety in power shortfall" in the Daily Telegraph is one particular exemplar. Piggy-backing on age-old State of Origin rivalries to escalate tensions on energy security, the story focused on NSW's importation of electricity from Queensland. The article of course ignored the fact that Queensland's coal fired power stations are closer to northern NSW than the Hunter Valley. Importing electricity from these more proximate stations rather than building more poles and wires from the Hunter is critical in NSW's ability to maintain a low priced and reliable energy supply.

The cause of this fuss stirred up by the Tele was a 50 per cent rise in NSW's imports of power from Queensland in the past year. Federal MP Craig Kelly (from NSW) was quoted as saying "it is an appalling state of affairs that we now have to rely on Queensland to make sure we can keep the lights on."

The reason why flow of electricity from Queensland to NSW doubles is the closure of Victoria's behemoth brown coal guzzler, Hazelwood, resulted in NSW importing less electricity from Victoria. In numbers terms, the long-standing reliance of NSW on Victorian electricity fell away 5,347 GWh to just 239 GWh. This shortfall would have traditionally been met by Snowy Hydro gaming the interconnector, but in the wake of a drought, NSW imported electricity from the next 'least cost' provider which is the Queensland government owned Tarong power station.

Energy policy wonks would have laughed at the content of the Tele's story if it were not for the seriousness in which the media are prepared to run erroneous stories and energy policy.

Black coal generation is the backbone of NSW's electricity supply and in three years (all 12 months to March) it has bobbed about from 55,883 GWh (2016) to 54,782 GWh (2017) and 58,096 GWh (2018). At least in part to compensate for the loss of Hazelwood, the NSW's black coal plants have pushed up production by around 3,300 GWh over three years even as consumers got fed more electrons from across the Tweed River (most of them from Queensland coal plants). In the year to March 2018, NSW in-state coal power represented 88.7 per cent of domestic production with the balance coming from gas

plant (2,488 GWh), hydro (2,344 GWh), wind (2,020 GWh) and solar farms (541 GWh).

But why would the Tele run these facts when they can run the 'State against State' mantra of the NRL.

The serious discussion on energy policy was the AEMO Report on the Integrated System Plan (ISP).

The well-argued paper was appropriately described by the Grattan Institute (*The Conversation*) as forecasting the future of coal-fired generation as: "It's either on the way out; or it's going to be needed for decades; or perhaps even new coal plants should be built."

Energy policy wonks know, "AEMO's new electricity plan is neither a death knell nor a shot in the arm for coal.

The (AEMO report) provides a hard-nosed engineering and cost assessment of what our energy system needs. It applies neither an accelerator nor a brake to the closure of existing coal-fired power stations. We need more of this approach and less ideology if we really want to see a lowest-cost, reliable and low emissions (electricity) future for Australia."

The AEMO ISP Report tells us the same thing that the industry has been saying for decades: the sector is in the midst of transformative and unprecedented change and coal-fired power stations will remain the cheapest provider of energy for several decades.

Yet, this simple first step by AEMO to present a factual account of the industry was used by all sides of the energy policy spectrum to justify every argument and further muddy public opinion on the issue of energy policy.

The more controversial aspect of the energy debate was the missive from the ACCC (Blueprint to reduce prices). This Report plays to the divide among the industry of the 'energy-only' versus 'capacity-based' market rules. The NEM is the only 'energy-only' market in the world and is held up by economists as the ideal model. And all evidence is that it has worked exceedingly well.

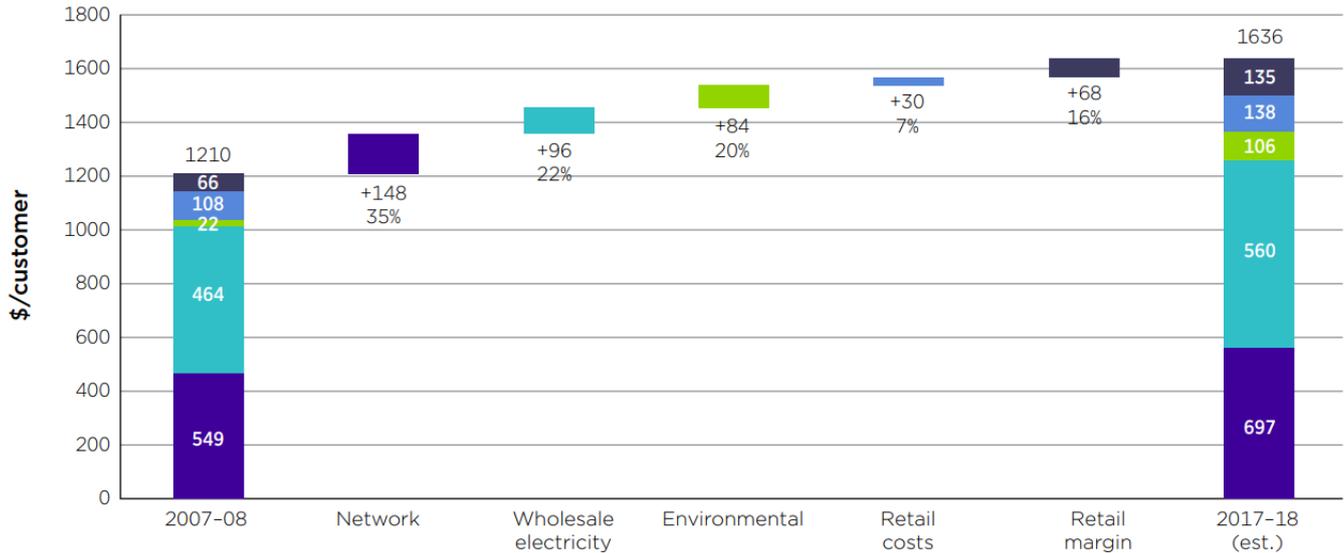
The problem the energy market faces is that it is not well placed to operate in a market that is so heavily influenced by political intervention. These political interventions are driven by the manic perspectives of the daily media.

If energy policy continues to be reactive to the verbal jousting between members of the Turnbull government over power generation, between the government and opposition over emissions abatement and now between

Josh Frydenberg and some of the states over the “national energy guarantee” ahead of the COAG energy Council meeting this week, then perhaps a capacity based market is the only solution.

This week’s battle between the Victorian Premier and the Federal Minister, in the lead up to this week’s COAG Energy Council Meeting might be nothing more than pre-election chest beating prior to the Victorian election in November but the implications of this strategy is a longer cycle of high energy prices.

Figure A: Change in average residential customer bill from 2007-08 to 2017-18, NEM-wide, real \$2016-17, excluding GST



Note: The percentages show each components’ contribution to the total increase between 2007-08 and 2017-18.

Source: ACCC Retail Electricity Pricing Inquiry – Final Report

The fortnight ahead – key dates and releases (AEST)

Tuesday 7 August

ABS Regional Building Approvals, June 2018, 11.30am
 RBA Interest rates decision, 2.30pm

Wednesday 8 August

ABS Housing Finance, June 2018, 11.30am

Friday 10 August

ABS Lending Finance, June 2018, 11.30am

Wednesday 15 August

HIA State and National Outlook Reports, 11.00am

Thursday 16 August

Labour Force, Australia, July 2018, 11.30am



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