

Energy policy: if governments co-operate, we can lower carbon and cut power prices

JOSH FRYDENBERG THE AUSTRALIAN 12:00AM April 12, 2018

Australia is paying a high price for our polarised political debate on energy and climate policy.

If we don't settle on a workable, market-based solution soon the result will be policy paralysis, expensive short-term government interventions and higher prices that will be paid by the public as a consumer or taxpayer.

When the National Electricity Market was concerned simply with the delivery of energy that came predominantly from coal and gas, the established market signals worked and low wholesale prices followed.

But now the new requirement of emissions reduction has been added to the mix and the penetration of renewables has increased. This has disrupted traditional business models and exposed a failure of policy, which is reflected in poor market outcomes.

The NEM is no longer delivering the consistently low wholesale prices and the effective signal for new investment that were its hallmarks. It is within text that policy must be reframed to get the market working for consumers again.

But rational policy must start with rational debate. This requires a recognition of the realities of today's energy market.

First, fossil fuels have been the bedrock of Australia's energy system, a ticket to our prosperity.

Those who would close coal with haste — as Labor and the Greens are on the record to do — would see power bills go up and our lights go out. For this reason, you won't hear the Coalition demonise coal.

Second, renewables have developed faster and further than originally thought, but these technologies, pulled through with substantial taxpayer support, can now stand on their own.

The government should be providing no new subsidies, be they to renewables or coal. Let them battle it out in a - properly regulated, technology-neutral market.

Third, like it or not, we are moving towards a carbon-constrained future. This reality is shaping our energy system and is part of the decision-making matrix for generators, networks, retailers and consumers.

While Australia plays its part in collective action on climate change, calls to decarbonise the economy overnight are as irresponsible as they are futile. What the Coalition will not do is engage in virtue-signalling and gesture politics at the expense of our blue-collar workers and their industries and our international competitiveness.

While power bills are straining household budgets, particularly for low-income earners, it is not a time for ideological "big experiments" and recklessly high emission-reduction targets.

It is a time, however, to put in place an enduring, practical framework that addresses the policy and market failure and cuts through the polarisation to integrate energy and climate policy.

As former prime minister John Howard said in a headland speech before winning government: "The Liberal tradition has always held that ideas are not political ends in themselves but the basis for developing practical policies that work for the common good."

This is the National Energy Guarantee which, in the words of the independent Energy Security Board, represents "a clear investment signal so the cleanest, cheapest and most reliable generation gets built".

It places an obligation on retailers to provide sufficient dispatchable power to ensure reliability — this is power available on demand regardless of the weather — while also requiring retailers to reduce the emissions intensity of their portfolio across time.

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These requirements are fundamental to restoring faith in the national electricity market by driving long-term investment in the right technologies at the right place at the right time, the outcome of which is a 23 per cent reduction in the wholesale price of electricity and a \$300 annual saving for households compared with what is on offer from Labor.

The NEG is not a new tax, subsidy or emissions trading scheme. It does not collect revenue for government. It is technology-neutral and does not pick winners.

It is based on engineering and economics, not ideology.

To make the NEG a reality, states and territories of both political persuasions will need to join together with the commonwealth and agree.

It will require governments to put ideology aside and work together in the national interest. It is our best chance to secure a lasting consensus.

We must not miss this opportunity to deliver a more affordable, more reliable and lower-emission energy system for Australia.

Josh Frydenberg is the federal Environment and Energy Minister.

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