

Australia's energy prices remain high compared to those peer countries with abundant fuel sources, such as the USA. The ramifications are significant as Australia has historically relied on cheaper domestic energy and feedstock to offset comparatively higher wages, both of which are important inputs into manufacturing and, as a result, employment and the broader economy.

In parallel to price challenges, a lack of appropriate investment in the electricity network has led to voltage / frequency instability, reduced generation capacity and ultimately more supply 'near misses' at a time when the country faces more frequent and significant weather events due to climate change. Similarly, limited capacity and competition in gas pipelines have led to contractual congestion and high transmission costs, to the detriment of consumers.

Paying high prices for substandard services is an unenviable situation.

The Morrison Government's energy policy hinges on picking technology winners, which has perversely acted as a disincentive to investors of new energy sources, and has been aptly criticised as "attempting to implement pre-election thought bubbles". Targeting vertically integrated energy providers with a 'big stick' interventionist approach has increased risk and investment uncertainty, contrary to what is required to address the trilemma of reliability, lower prices and emissions reduction – the intent of the National Energy Guarantee (NEG). Small successes from initiatives such as the Default Market Offer have achieved little material impact on pricing in the face of significant wholesale price increases.

Government policy on greenhouse gas emissions and climate change has been classified as "Insufficient" in independent analysis by Climate Action Tracker, who note the climate commitment as not a fair contribution to the global effort and not consistent with the Paris Agreement's 1.5°C limit, which would require de-carbonising Australia's economy by mid-century.

While Governments from both parties can be criticised for inaction and vacillation on energy and climate policy over the past decade, the reality is they are trying to formulate policy that maintains jobs in the coal industry, avoids sovereign risk in massive LNG investments, maintains a working manufacturing sector, tries to herd rogue states with vested interests and uncoordinated renewables incentives / emissions positions, brings price relief to east coast consumers / voters, removes bloated cost bases and historical monopolies in gas and power distribution, battles with the costs of a small population dispersed across the world's sixth largest country, accommodates a voter base that is increasingly climate conscious and agitative, appeases neighbouring island nations facing climate-induced devastation and achieves progress toward international climate commitments, while facing pressures of a global economic slowdown; all in a country whose economy is heavily geared to exports of fossil fuels and carbon-intensive natural resources.

It is well understood that, despite advancements in technology, capacity and cost / efficiency, the use of energy storage via batteries, pumped hydro, hydrogen or other chemical technologies will not provide a solution at scale for one or possibly two decades. The grid also requires significant investment and reconfiguration to allow the dispersed generation to feed into the distribution network. While technology is likely to help solve this issue, the implications are that intermittent renewables such as solar and wind power will, for the medium-term, continue to cause instability in the grid rather than constitute reliable energy solutions.

The inability of renewables to unilaterally solve the energy trilemma in the short term does not negate or illegitimise the call for reduced emissions from electricity generation. Irrespective

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of the Government's inability or unwillingness to address climate change, owners of coal-fired generation plants see the writing on the wall. There is little doubt that changing from coal-fired to gas-fired generation would achieve the lion's share of emissions reductions for the mid-term outlook. The USA, which chose to opt out of apparently burdensome Paris commitments, will fortuitously achieve those commitments simply by converting generation from coal to cheaper gas. Whilst not the ultimate solution, gas power generation is easily the most likely and reliable source of dispatchable power that will underwrite the ultimate transition to decarbonisation.

Of course, this brings us back to gas prices. The LNG genie just cannot be put back into the bottle without severely damaging Australia's reputation as an investment destination. The only real solution to reduce gas prices is to increase gas supply from other, cheaper sources. The industry is certainly looking for ways to do this, with promising signs from regions such as Narrabri and the Beetaloo Basin. State and Territory Governments have not been quick to support such developments, with the Victorian Government waiting until 2020 to review a ban on even standard onshore exploration or production drilling, while planning to permanently embed the ban on fracking within the state's constitution.

The long-term answer certainly does not lie with importing LNG; linking Australia's future energy prices and economic wellbeing to global markets is what got us into this mess in the first place. Short of nuclear power (dead on arrival) or moving all industry to the West Coast (Premier Mark McGowan has extended a welcome to industry), a long-mooted West-to-East pipeline and / or North-to-South pipeline that links plentiful gas resource to the large East Coast customer base may be the answer. There is ample industry interest to fund and build a pipeline – it simply needs a carrot in the form of Government support to provide the impetus, and a bit of a stick to prevent gas banking. Finally, a sensible use for that big stick.

It has been demonstrated that a petajoule of gas used in the chemicals industry generates 80 times the employment and 30 times the economic value of simply exporting that gas as LNG. With an eye to the economic stimulation that cheaper and more secure gas supply would bring from increased manufacturing and higher disposable incomes in consumer households, and more directly from this critical infrastructure investment, coupled with the benefit of providing a path to lower future carbon emissions, it is amazing that transcontinental gas transmission isn't higher on the priority list.

On the positive, recent investigations and actions by the ACCC and other agencies is starting to remove inefficiencies and direct effort in ways that are improving prices and the customer experience.

Logical next steps include better coordination and accountability of agencies, and a focus on reducing energy consumption by improved efficiencies and reduced losses. Given Australia's many natural advantages for renewable energy the Government has an opportunity to support the development of this industry to maintain our pre-eminence in the export of energy while helping decarbonise our economy and that of other countries around the world.



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