



Centre for Energy and
Environmental Markets

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The Australian Energy White Paper: *Some energy markets perspectives*

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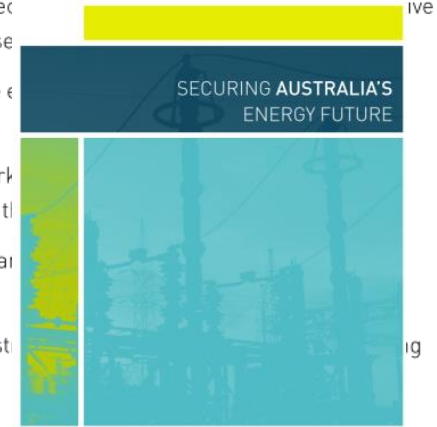
***ANU Energy White
Paper Forum***

ANU Energy Change Institute
28 April 2015



To achieve energy prosperity, security and sustainability, the government has put in place policies to:

- attract investment in the efficient discovery of resources for the benefit of all Australians
- deliver a prosperous economy while protecting the environment and playing a leadership role in global efforts to reduce greenhouse gas emissions
- encourage development of cleaner, more efficient energy technologies to secure Australia's energy future
- develop effective and efficient energy markets to ensure that energy is produced where and when it is needed into the future
- minimise disruptions to energy supplies and ensure that energy is available when disruptions occur
- establish an efficient energy tax base, restoring resource rent taxes to offshore projects
- ensure Australia uses its energy wisely.



Back to the future

“Many of us who keenly observe the energy sector can take a pretty good guess at what our next big challenges are”

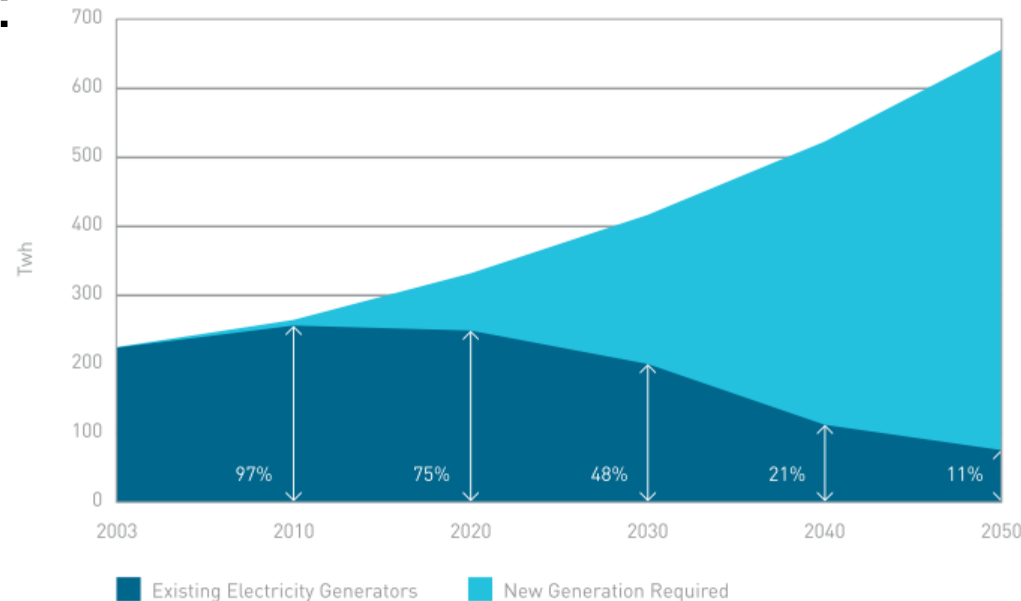
Senator MacFarlane, 10/9/2014



■ However, 2004 White paper had almost no discussion of:

- CSG (CSM)
- East Coast LNG export
- Falling demand
- Falling costs and growing of Wind, PV

Figure 3: Demand/Supply balance for electricity—Medium electricity demand scenario



A future that is getting harder to predict...

18-Sep-13 Coalition Government sworn in

5-Dec-13 Terms of Reference released

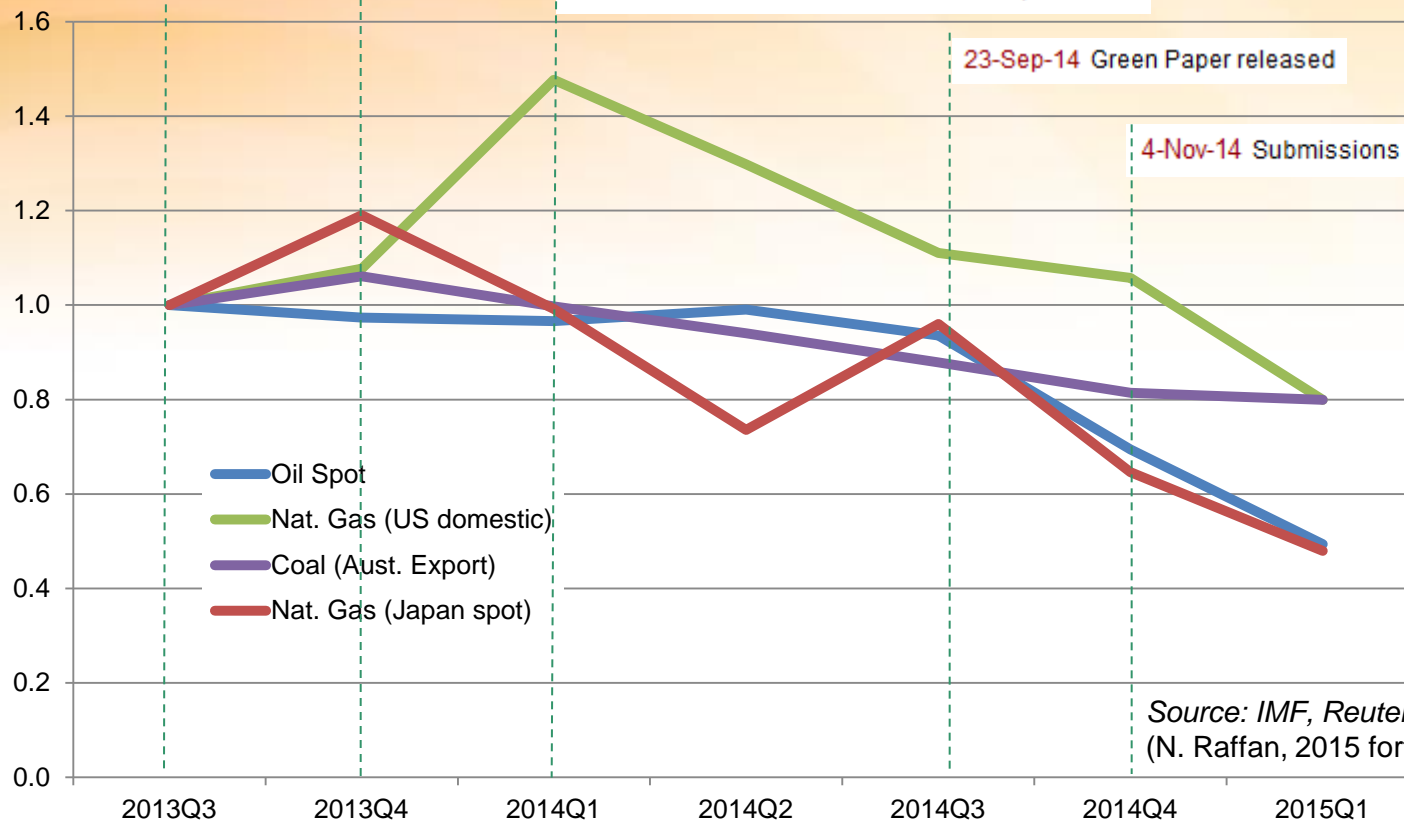
17-Dec-13 Issues Paper released

7-Feb-14 Submissions on the Issues Paper closed

23-Sep-14 Green Paper released

4-Nov-14 Submissions on the Green Paper closed

8-Apr-15 Energy White Paper released



Source: IMF, Reuters, (N. Raffan, 2015 forthcoming)

... but still requires challenging, forward looking decisions

Uncertainty is an uncomfortable position. But certainty is an absurd one.

- Voltaire

- Energy investment typically large, lumpy, irreversible, long lead times & asset lives; requiring high levels of coordination
- Someone has to take these decisions
 - Who?; *information, knowledge, resourcing, autonomy*
 - How?; *process that invariably includes planning*
 - Within what context?; *broader societal objectives as reflected in policy and regulation*
 - With what level of integration with other decisions? *Coherent, comprehensive and integrated decision making required*
 - With what accountability for success or failure?; *Risk management and allocation*

White paper framework – competitive markets

*“Investment decisions on future generation assets, including choice of technology, are best made by industry, given its insights into market needs. The Australian Government will seek to maintain **stable** and predictable policy settings across the range of areas that affect such investment decisions, while taking a technology-neutral approach.”*

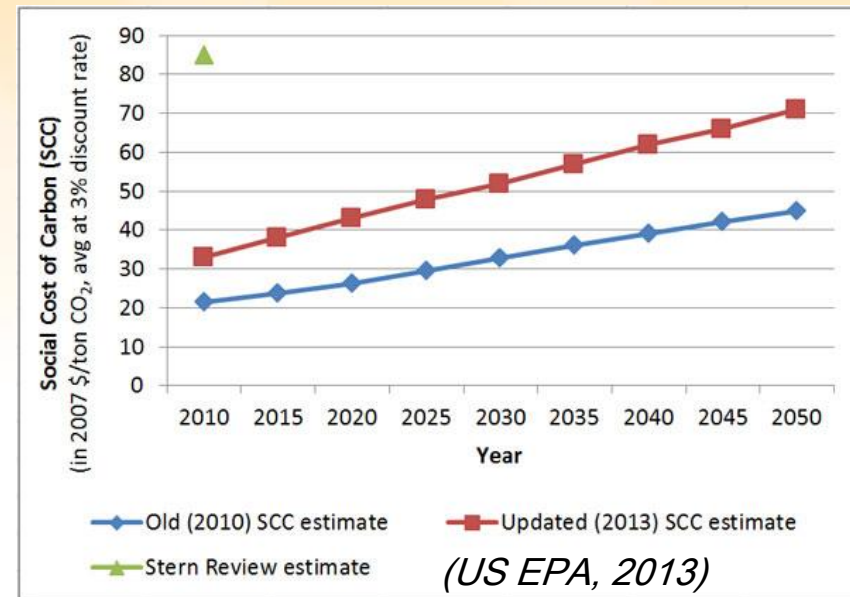
- Is this compatible with
 - the scale and speed of change required to address our national and international energy challenges?
 - decisions regarding the economically regulated monopoly infrastructure within which such investment resides?
 - effective risk management and allocation? *Investor certainty in an uncertain world doesn't manage risk but just reallocates it onto public*
 - the market inefficiency associated with unpriced environmental and social market 'externalities'

The question is not whether to have a price on carbon?

- Costs associated with reducing emissions regardless of particular means chosen (tax, emissions trading regulation, ERF...)

And / or

- Social costs associated with impacts of failing to effectively manage climate change (SCC)



- Instead, real question is who, pays how much, to whom, for what, when?*

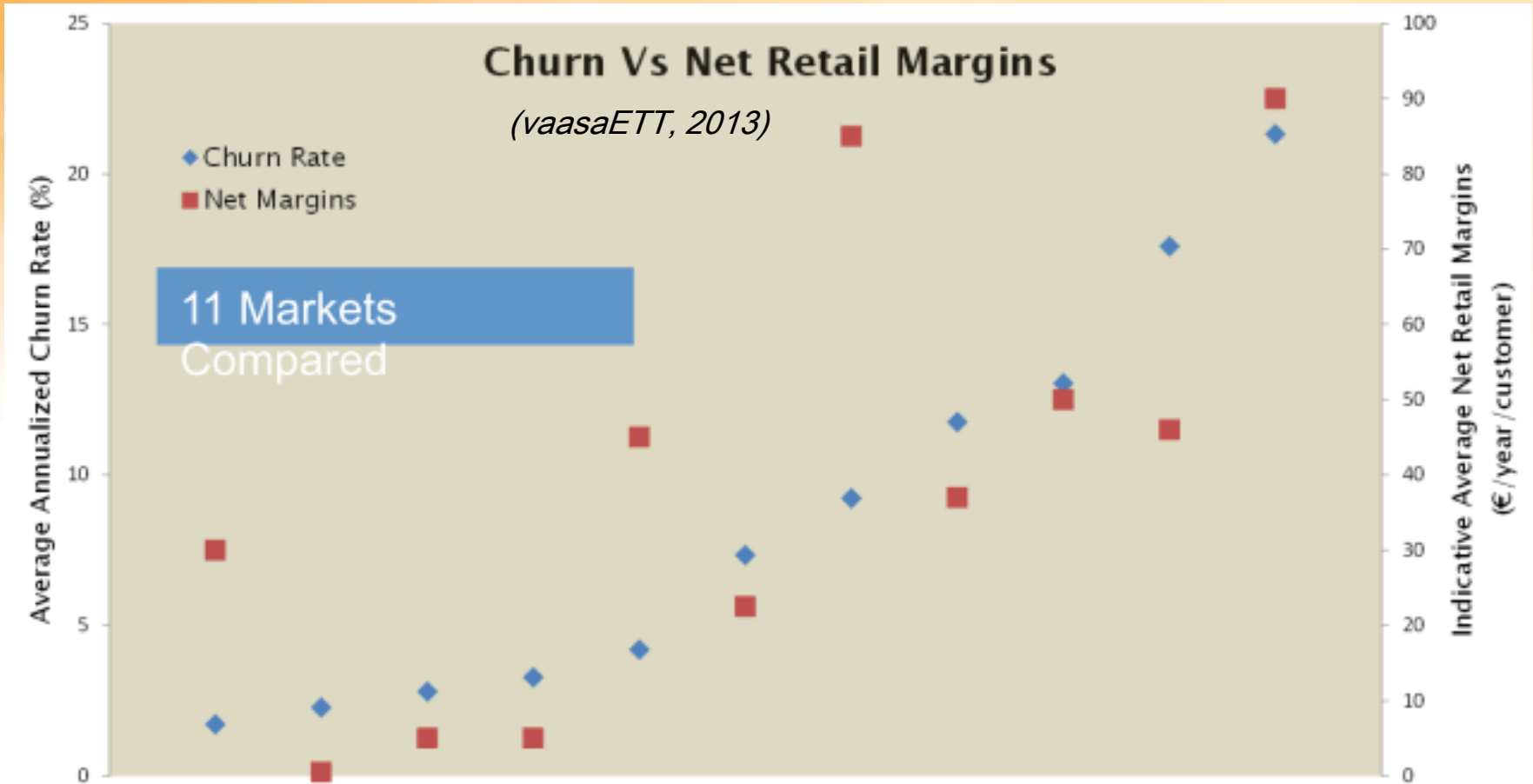
Welcome focus on consumers

“...development of market frameworks to encourage innovative products & services that give consumers more choice in managing bills & support greater competition”

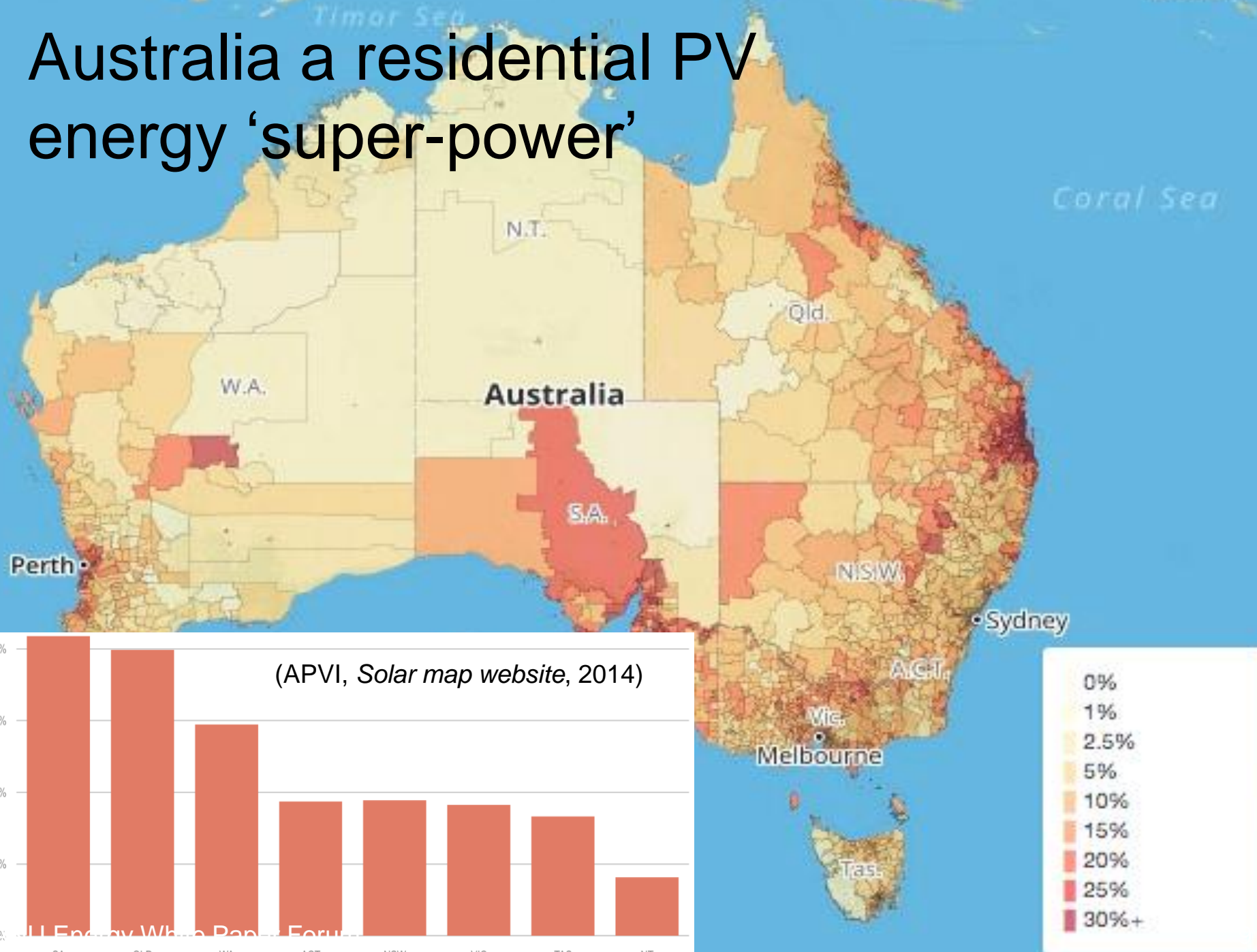
“Regulation should generally encourage competition & consumer choice, not stifle it”

- Incumbents will generally prefer less competition
 - engaged customers with real options key to true competition
- However
 - Limits to the interest, motivation, knowledge and capabilities of some; *requires protection and facilitation to support engagement*
 - Not always being offered meaningful choices; they want services, not an energy commodity
 - Inadequate measures of competition; *does ‘churn’ and market offer ‘spreads’ reflect competition or the absence of it? 1.4 million households have engaged through residential PV that reflects real competition beyond choosing a retailer*
 - Shared choices important too; *including question of renewable energy policy, further electricity industry privatisation*

More competition?



Australia a residential PV energy 'super-power'

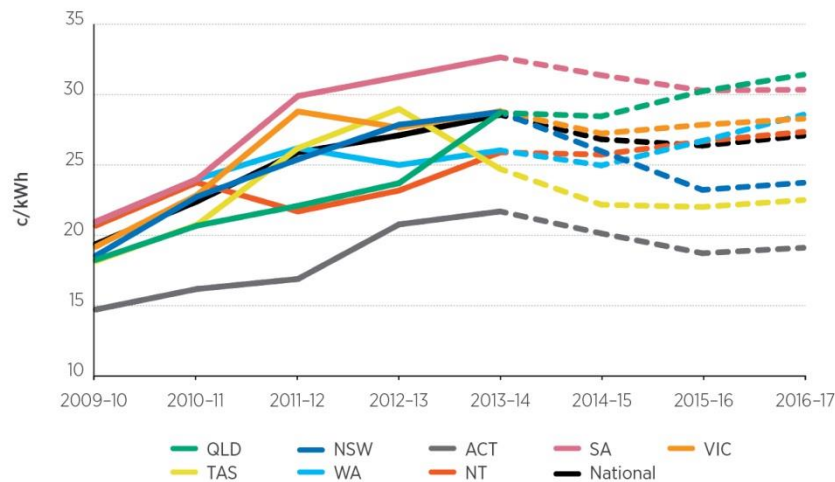


(APVI, Solar map website, 2014)

A compelling case for privatisation?

“The evidence is that privately owned energy assets are more productive” If true, do customers care?

Figure 2: Trends in retail electricity prices by jurisdiction, 2008-09 to 2013-14 and forecasts to 2016-17



- Focus on gas market competition welcome but challenges there reflect, at least in part, the restrictions that largely private ownership placed on earlier reform efforts

Welcome focus on productivity

- ... but requires greater coherence with market reform
 - *“Artificially low domestic prices do not encourage gas users to use gas more efficiently or encourage innovation in the use of alternative fuels and processes.”*

True, but doesn't the same apply to electricity?
- as well as clearer definition
 - Is it the economic value derived through energy use compared against energy costs, or energy consumption?

Possible improvements to White Paper process

- As it stands, largely a 'to do' list of government priorities over near future
- In terms of vision and long term planning falls well short
- Opportunities to focus more on planning rather than the plan
 - Detach from political cycle (*currently one White paper per government*)
 - Broader, and ongoing stakeholder engagement
 - More scenarios and robustness testing of these
 - Leverage ICT to support an ongoing dialogue as new inputs emerge (eg. NESAs), circumstances change, policies are implemented...

