

Price Shock

Is the retail electricity market failing consumers?

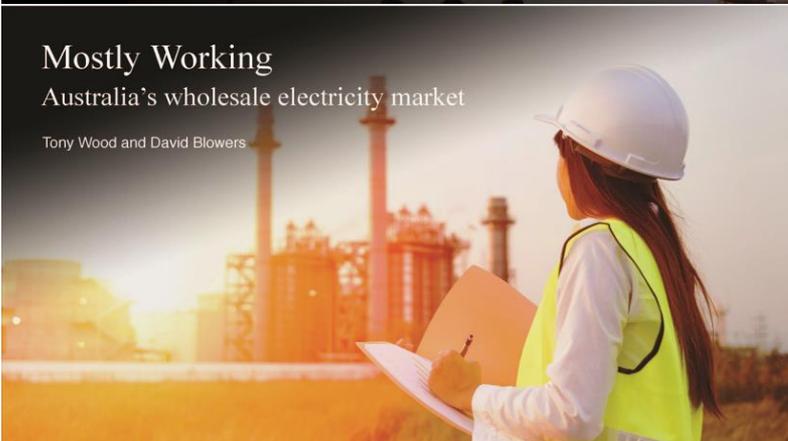
Tony Wood and David Blowers



Down to the wire

A sustainable electricity network for Australia

Tony Wood, David Blowers and Kate Griffiths



Mostly Working

Australia's wholesale electricity market

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GRATTAN

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**Reshaping policy
for a clean energy future**

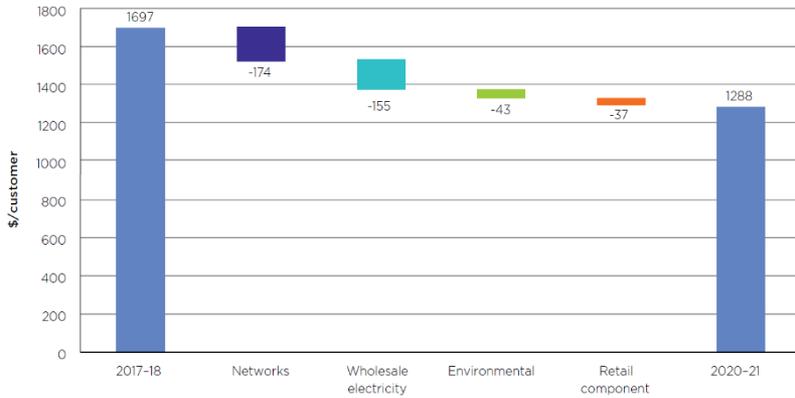
**Clean Energy Summit
Sydney, 31 July 2018**

Policy: the problem or the solution?

- **Australia's has drifted into a place of high prices, questionable reliability and uncertainty on emissions – the primary cause is poor governance behind a toxic political battle on climate change.**
- **A suite of internal and external circumstances created the opportunity for a way out.**
 - **Finkel Review**
 - **National Energy Guarantee**
 - **Integrated System Plan**
 - **ACCC Review of retail electricity competition**
- **The challenges are politics now and governance later**
- **Affordability (prices) is the current risk and questionable outlook**
- **Technology lock-in is a potential big deal**

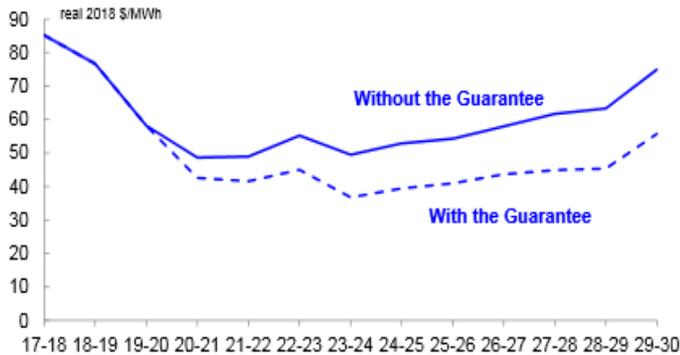
Forecasting is hard, especially about the future

Achievable average residential bill savings in NSW by 2020-21



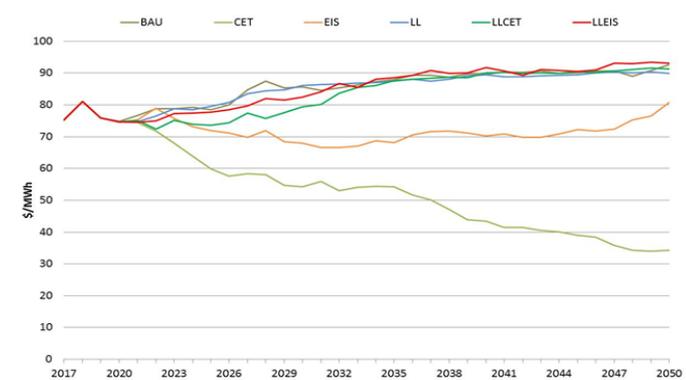
Source: ACCC Retail Electricity Pricing Inquiry

Chart 4: NEM wholesale prices under the Guarantee



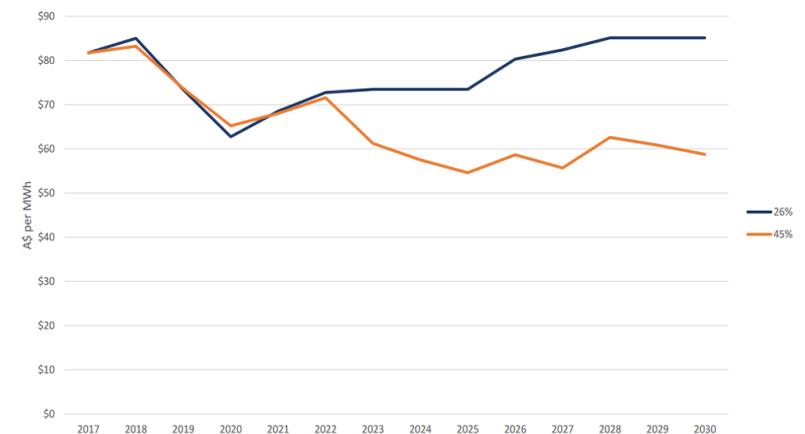
Source: ACIL Allen modelling for ESB

Figure 22: NEM wholesale prices, all scenarios



Source: Jacobs modelling for Finkel Review

Figure 17: Electricity price scenarios (all regions) - 26% NEG target versus 45% NEG target

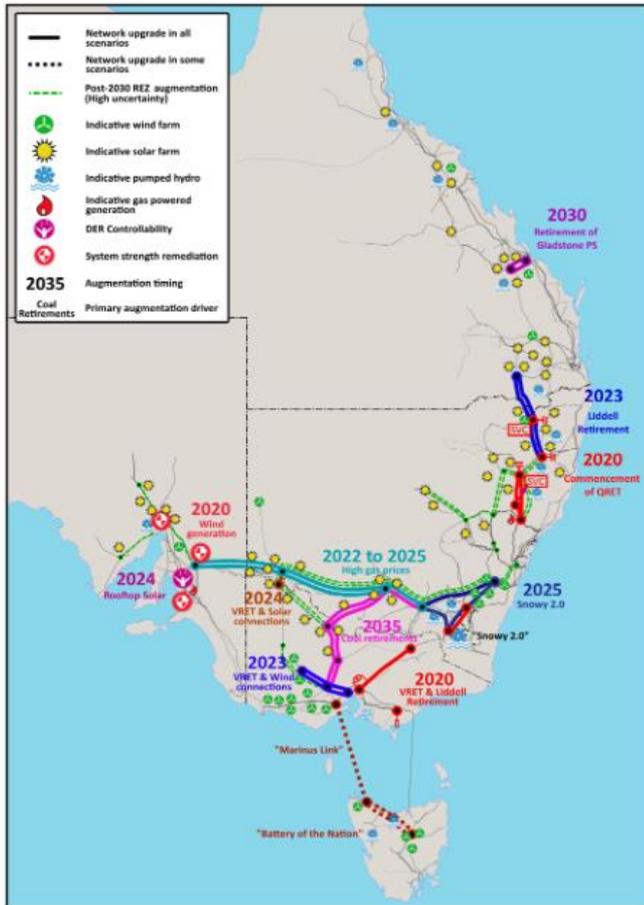


Source: Reputex Energy, 2018

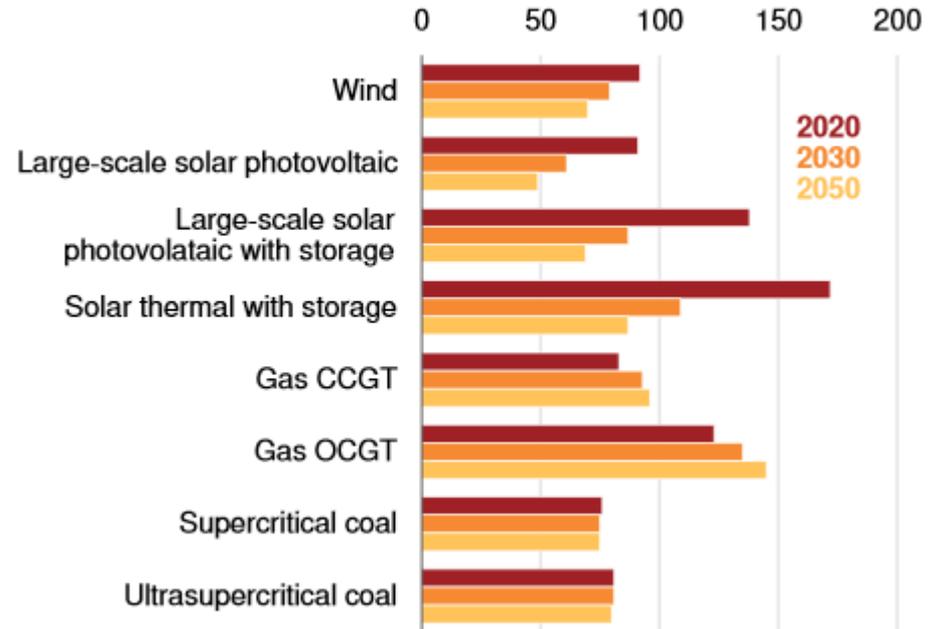
Common theme: preferred action delivers lower prices

Back to the future on prices looks hard, regardless

Figure 43 The Base development plan with storage initiatives



Levelised cost of electricity, \$ per megawatt hour



Source: Grattan extension from Finkel Blueprint for the future

Source: AEMO Integrated System Plan, July 2018

Success may sew the seeds of failure

- **The low cost of solar and wind means they will become the default new capacity**
- **The value of solar falls faster than the cost –**
 - Supply exceeds demand
 - Intermittency strains the electricity networks
- **The success of silicon, supported by deployment innovation, repeats the technology lock-in of nuclear.**
- **The wholesale spot market becomes less relevant for revenue and irrelevant for investment. The market hollows out the middle where the money is earned today.**
- **The great uncertainty: is there a point if/when low cost solar and cost-effective storage are not enough for a reliable, affordable system?**
- **We will need an Australian solution**
- **Innovation may hold the key – in finance, technology and systems**

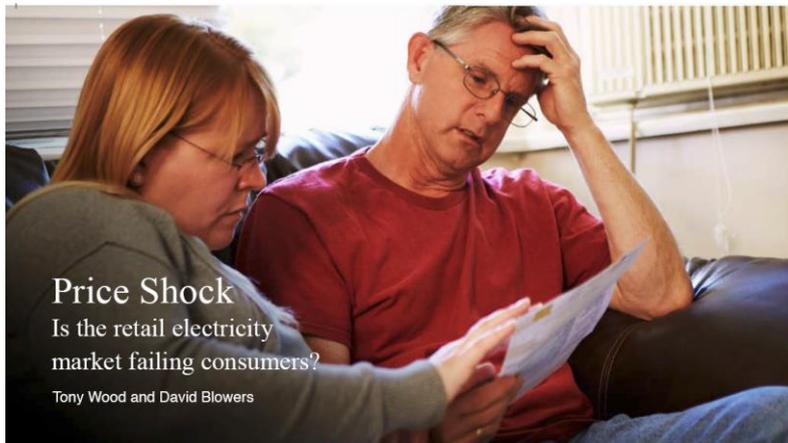
What should governments do?

There is now a risk of drowning in the detail of reviews and reports - a focus on the big and the immediate would be a good start

- **Short-term impacts**
 - **Provide central policy stability – NEG+**
 - **Address bidding rules**
 - **National gas development standards**
 - **Networks – RAB reset; RoR ; cost-reflective pricing**
 - **Regulate retail – regulate practices; regulate margins**

- **Longer-term impacts**
 - **Process towards economy-wide emissions reduction**
 - **Integrate market and plan – stranded asset policy**
 - **Support innovation- financial, technology and systems**
 - **Resolve governance structural ineffectiveness**

- **Develop a compelling narrative**
 - **Bipartisan articulation of Australia’s rationale and outlook**
 - **Be honest about future prices**
 - **Be clear about reliability**



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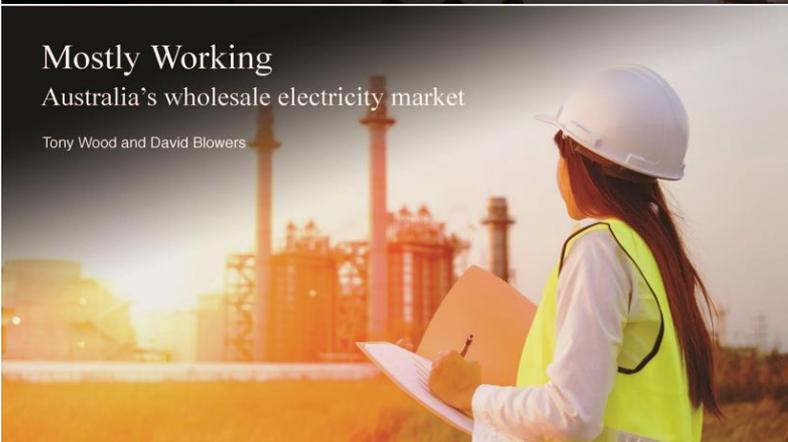
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