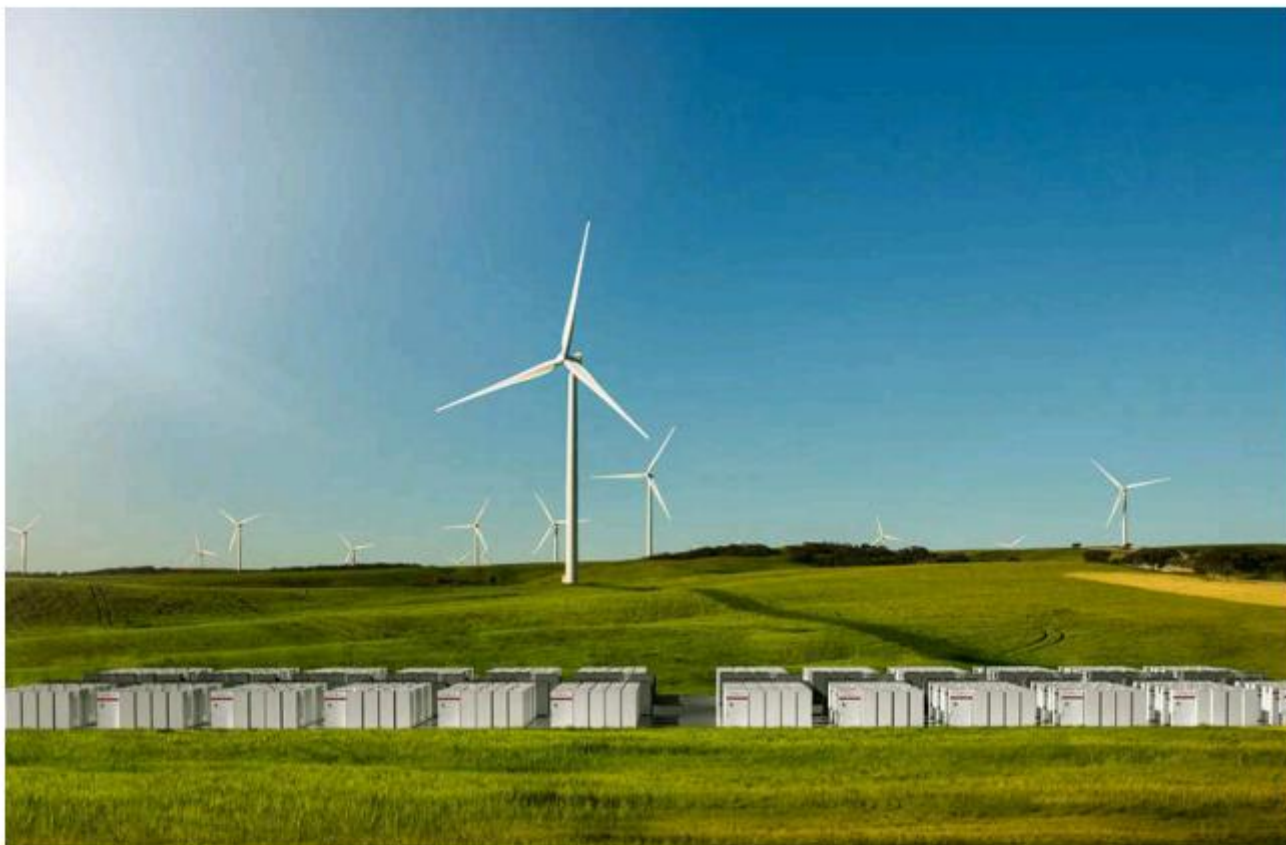


Power crisis at the door

Australia's energy policies are friendless as consumers protest price hikes, panicking governments try to avert summer blackouts and usually cautious officials characterise the predicament as dire.

John Robertson* | 05 Oct 2017 | 5:41 | Opinion



Tesla offered power-storage solutions for South Australia after poor energy planning unpinned mass blackouts last year

Australia has a superabundance of natural energy sources: coal, oil, gas, uranium, sun, wind, water and a plethora of battery storage minerals give the country an enviable array of options with which to independently manage its energy needs.

Cheap coal resources have contributed one third of the energy consumed in recent years, according to the Department of Industry, with oil and gas together accounting for another 60%.

Despite the country's outstanding natural endowment, Australian Bureau of Statistics (ABS) data show the retail price of electricity doubling since the end of 2007. In South Australia, users face the highest prices for electricity in the world.

In a speech last month, the head of the Australian Competition and Consumer Commission (ACCC) raised the prospect of business failures "just because our east coast gas market is dysfunctional".

Related content

- [Drill now, dig later](#)
- [Industry profits surprise government](#)
- [MAC pumps up climate initiatives](#)
- [China cleaning up coal sector](#)
- ["There is growing acknowledgement ... we are going to need to accelerate the use of CCS"](#)

TOPICS (select for more information):

- Elon Musk
- Renewable energy
- Coal
- Gas
- Petroleum
- Uranium
- Australia

With apparently ample domestic coal-fired power capacity, the big gas developments that stoked a A\$300 billion (US\$235 billion) eight-year investment surge were structured to supply export markets and largely ignore domestic needs.

Complacency arising from Australia's rich natural endowment has left energy planning to drift aimlessly for the past decade, while a fight over climate change has preoccupied politicians.

In 2007, then prime minister Kevin Rudd called climate change "the great moral challenge of our generation" and committed Australia to reducing the carbon intensity of the economy.

The conservative side of politics dumped its leader for trying to accommodate Rudd. Some refused to accept the scientific consensus about the source and extent of climate change. Others emphasised the damage to business, with few meaningful gains, from mandating lower emissions.

Famously, Kevin Rudd's successor as leader of the Labor Party pledged during her 2010 election campaign that "there will be no carbon tax under the government I lead" before a deal with the Greens to shore up her parliamentary numbers broke the commitment and ruined her political future.

A price on carbon, the economists' favourite tool for controlling carbon emissions, was rejected at the ballot box in 2013 by mainstream voters already burdened by record energy prices.

Rather than having a comprehensive carbon-pricing scheme, the major parties have cobbled together a patchwork of renewable energy incentives.

Renewable targets enshrined in law at the national level ostensibly gave energy producers assurances about their sales but the raging debate and threats to change targets has undermined their value.

While the involvement of the national government in energy policy has grown, state governments have had the primary responsibilities to approve resource developments and ensure energy security.

In pursuit of even more aggressive renewable energy targets, state governments have mothballed and destroyed coal-fired power plants within their jurisdiction.

A September 2017 ACCC analysis found that looser regulation of largely state government-owned monopolies to avert budget pressures was the largest single cause of increased electricity prices over the past 10 years.

State governments have also succumbed to campaigns by community activists opposed to onshore gas development.

The Victoria government has placed a moratorium on sourcing gas by conventional means as well as through hydraulic fracturing. Partial bans are in place in New South Wales, Western Australia and the Northern Territory.

The ABS has estimated that expenditure on onshore petroleum exploration over the year to June 2017 of \$433 million was a fall 70% – spending over the past year was approximately the same as in the early 1980s.

New drilling technologies allowing companies to operate within lower price environments have failed to affect Australian efforts.

Well before climate change had become a prominent public policy issue, uranium mining had also been banned.

"The haphazard development of the nation's energy resources is another sign of an arthritic fiscal framework"

Removing a nuclear power option did not greatly perturb the broader Australian community as long as people thought the country's abundant supplies of coal would mean little risk to energy supplies.

Limits on uranium mining remain and spending on exploration was just \$22 million over the year to June 2017, according to the ABS, compared with \$221 million in 2008.

The country's energy predicament hit the headlines in September 2016 when the entire South Australian grid was blacked out after a severe storm.

An enquiry into the causes of the blackout confirmed how a growing reliance on wind and solar energy sources (and reduced use of coal and gas) had raised the chance of blackouts without necessary grid modifications to take account of possible large fluctuations in energy production.

Realisation that renewables need storage capacity to better match production with demand has dawned only belatedly. Elon Musk quickly volunteered to build the world's biggest lithium-ion storage battery in South Australia to help it ride out demand fluctuations in the upcoming summer period. But for Musk's intuitive feel for publicity, nothing might have happened.

Other projects are now being actioned to paper over earlier failures including a pet project of the current prime minister to generate and store off-peak energy from the Snowy Mountain hydro-electric scheme to be despatched when prices rise.

The haphazard development of the nation's energy resources is another sign of an arthritic fiscal framework.

Australia's taxes on corporate profits, personal incomes and retail spending are collected by the central government and distributed to the states according to a long-established needs based formula.

A state's share of national tax collections is dictated by how much is needed to provide government services of comparable quality to those in other states. The weaker a state's own economic base, the more it receives by way of grants.

Paradoxically, stifling gas exploration or coal and uranium mining could mean a larger slice of the existing cake. Anti-development practices are rewarded, not penalised.

Poorly constructed incentives mean governments are more easily persuaded to ban or delay projects – not just in the energy space – than encourage their potential.

**John Robertson is the chief investment strategist for PortfolioDirect, an Australia-based equity research and resource stock rating group. He has worked as a policy economist, business strategist and investment professional for nearly 30 years, after starting his career as a federal treasury economist in Canberra, Australia*