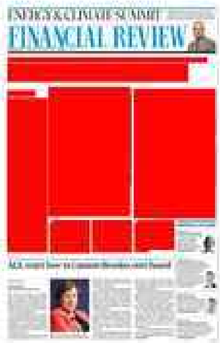
Rough ride to clean power

By Angela Macdonald-Smith , Jenny Wiggins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Rough ride to clean power

Angela Macdonald-Smith and Jenny Wiggins

▶ **Household prices tipped to jump 35pc next year** ▶ **Massive investment task** ▶ **Firmed capacity not keeping up with coal exits**

Retail electricity prices could soar by at least 35 per cent in 2023 due to the unprecedented cost of wholesale energy, as the system grapples with the transition to clean energy amid a global supply crisis, power company bosses have told The Australian Financial Review Energy & Climate Summit.

"Next year, using the current market prices, tariffs are going up a minimum 35 per cent," Alinta Energy chief executive Jeff Dimery told the Summit in Sydney, with disagreement from Origin Energy and EnergyAustralia.

The so-called "gentailers" – which generate electricity and also sell it to consumers – are suffering, with rising costs forcing them to write off $11.7 billion of shareholder funds over the past five years.

Mr Dimery warned Australia was "out of time" for putting in place policies to support investment in new firmed renewables capacity to replace the coal power plants exiting at an accelerating rate, worsening upward pressures on pricing.

"What cost $1 billion to acquire is going to cost $8 billion to replace. So let's talk about that and still explain to me how energy prices come down – I don't get it."

The estimated jump in reference power tariffs next year – based on recent increases in wholesale prices – comes on top of an increase of up to 18 per cent in household tariffs on July 1.

It makes it harder to achieve the drop in power prices promised by Labor by 2025 in the run-up to the election in May, although Climate Change and Energy Minister Chris Bowen did not back away from that assurance.

"We remain of the view that renewables are the cheapest form of energy by a country mile as AEMO [Australian Energy Market Operator] says, and getting more renewables in the system will mean lower power prices," Mr Bowen told the Summit.

"I don't think that should be such a controversial statement still in Australia in 2022."

Energy user groups said many consumers were already struggling with power tariff increases that have already occurred, while gas users are being thumped by hikes in gas bills, in some cases reportedly up to 30 per cent, which are threatening the survival of some manufacturers.

Large energy users suggested a change is needed in the narrative around the cost of the energy transition, so people better understand the huge challenge involved, and the impact on prices.

"It appears that some people think [the energy transition] will be easy and cheap, but I think most people in this room understand it's hard and expensive and likely to drive energy bills [up] in the near term," said Andrew Richards, CEO of the Energy Users Association of Australia.

Worley CEO Chris Ashton agreed the challenge is significant given the scale and speed of investment required even to meet 2030 targets, but he said there were ways around it. "It's the deployment of that capital at the pace and scale [required] that is going to be the challenge for us," he said.

Mr Ashton said the project approvals process needed to be streamlined, and

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construction of new supply standardised. "Every time we start to look at an investment … it tends to be a bespoke design. We're going to have to move to much more standardised ways of doing things where we get high levels of replication. We'll have to modularise and almost go into a production-line type mechanism type approach if we're going to deploy the capital, because what Australia is facing isn't unique.

"If you look at the quantum of investment required … [estimates] look at anywhere between $US100 and $US120 trillion of investment necessary to effect transition by 2050. That is orders of magnitude more than the supply chain is capable of doing today."

Brett Redman, CEO of TransGrid, also voiced confidence the huge build-out of the grid can be completed on time, including $8 billion worth of projects in the pipeline for the NSW grid company.

The former CEO of AGL said he and others had previously underestimated the pace of change the Australian power supply system would experience over the past five or 10 years.

"So in TransGrid, I'm determined to make sure that we're not outpaced, that we stay ahead of this change," he said. "Because if we don't, if TransGrid doesn't stay ahead of this change, nobody's going to get to the destination that we need to."

Daniel Westerman, CEO of AEMO, and Anna Collyer, chairman of the Australian Energy Market Commission, were also optimistic that the supply challenge can be overcome, with Ms Collyer saying she did not want to talk about any "plan B" to avoid supply shortfalls.

"The last thing anybody would want to see is any extension to the lives of coal-fired power stations: I really don't want to talk about a Plan B," Ms Collyer said.

Mr Dimery said the cash collateral that Alinta needed to cover its wholesale energy position on the futures exchange had already increased to $700 million from $200 million, and "our view is it's heading to a billion and beyond".

"Every time we write a futures contract off our power station, I have to put more collateral into the market," he said. "It's starting to impact liquidity."

Just yesterday, the 2025 futures price had increased $7 a megawatt-hour, while the 2024 price increased $12 a megawatt-hour, he said. "So I'm looking forward to a margin call from Macquarie Bank later today on our margin position, which will go up."

While Australia was in a "luxurious" position compared to the UK, a 35 per cent minimum tariff increase would be "horrendous," Mr Dimery said.

"It's unpalatable, nobody wants that. We don't want consumers tearing up their bills and setting fire to them [but] that's the reality of where we are headed, unfortunately."

There was also a ripple effect on the cost of insuring power stations, Mr Dimery said. "I've got a futures market punishing me every time I write a contract, I've got an insurer telling me 'Stop writing because we're not insuring you as well.' And so you've got this circular thing going on in liquidity … the market really is in trouble and we need decisions made now."

Mr Calabria said the key challenge for Australia was no longer ambition, but that the existing system needed to operate reliably until new renewables infrastructure could be built. Honest conversations were also needed on what it would cost to build and how long it would take, he added.

"We're already on the path of a roller coaster right now and we really need to get going on it," Mr Calabria said.

Energy Australia CEO Mark Collette said the steep rises in wholesale gas and electricity prices was putting "a lot of upward pressure" on tariffs.

But aggressive price caps on how much households are allowed to be charged for energy in the UK had also caused enormous hardship, he said. "For a functioning market, we need to get those settings right."

The scale of investment needed to build renewables infrastructure is "enormous," he stressed.

"What's been done over the past 20 years – we're probably talking about two or three times that, or more, and to be done over the next seven years to hit the 2030 targets," Mr Collette said.

Alinta's Mr Dimery said that he was "quite pessimistic" about a smooth transition to renewables, given the tens of billions of dollars of development needed during a period of intense labour shortages.

Momentum Energy managing director Lisa Chiba said around seven million households in the UK were experiencing fuel poverty and Australia needed to "gear up" for similar problems. The company has started investing in compassion fatigue training for its front-line staff so that they can look after customers in financial difficulty.

The needed investment in firming capacity – including pumped hydro plants, storage and gas plants – has stalled in the absence of long-planned reforms of the National Electricity Market, which would involve putting in place a so-called capacity mechanism that would provide payments for plants that can generate on demand.

But after three years of work on the plan by the Energy Security Board (ESB), ministers in August decided to take over control of the work, rather than to implement the proposal.

Meanwhile, plant owners are bringing forward closure dates for existing coal power plants, including AGL last month, while Origin's Eraring generator in NSW is due to close as early as 2025.

Mr Calabria noted Origin has always said it will review the market as it nears a final decision on the 2880MW Eraring plant, depending partly on the rate of new replacement supply coming into the system.

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Jeff Dimery, Alinta Energy CEO

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Frank Calabria, Origin Energy CEO

PHOTOS: JEREMY PIPER, OSCAR COLMAN