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“In Support of Progress”

Newsletter

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**Energy
Councils
Mac Pt**

Energy and AGL

The present situation surrounding the government and the energy company AGL has exposed the disgrace that has been this country's approach to energy policy, the myopic and ideological approach taken by our politicians, and the abject failure of the government as a negotiator.

Recently, AGL announced its decision to close the 2000 MW Liddell power station in 2022. This follows the closure of Northern (SA) and Hazelwood (Vic) Power stations earlier this year. Out from the starting blocks, the Australian Energy Market Operator (AEMO) warned of an impending shortage of base load power and of the need to have available 1000MW of “reserve capacity”, OMG. Everyone panic. The government seeks urgent talks with the company. Others, including the NSW government, which originally sold the station to AGL, expresses interest in buying the station.

The truth is AGL is playing the federal government on a break over the Liddell power station. The government has been bought and sold, and still doesn't realise it was on the market.

To recap, AGL is in the energy business. As a generator it produces the majority of its electricity (over 80%) from coal and gas-fired generation, and as a retailer it sells electricity to customers. The more it earns from the supply and sale of power, the greater its profitability - QED.

Twenty years ago, the government was all about breaking down the state power monopolies into separate units of generation and retail, with generators not able to be retailers, at least not in the same state. The argument was simple – the greater the competition the lower the price of power. It was a flawed argument, as over time, the private operators have been allowed to become vertically integrated ie to become both generators and retailers, so the policy of disaggregation is now practiced in the breach.

Historically AGL was a retailer, pure and simple. But over time it acquired generating plant, essentially to protect itself from the fluctuating price that retailers were being charged for their power supply. In 2012 AGL purchased the 2200 Loy Yang Power station in Victoria, and in 2014 it purchased the assets of Macquarie Generation – a state-owned statutory corporation - in NSW, including the Bayswater Power station (2640MW), and the Liddell power station (2000MW), of which the latter was reaching the end of its operational life.

AGL competes in the national market with a number of other companies, including Energy Australia (see later) and Origin. Together with Snowy Hydro and Hydro Tasmania, these companies provide the baseload power requirements of the national system. Until recently the market has been a competitive system, and the availability of supply relative to demand has kept the prices low.

However, over recent times, the uncertainty of gas supply and the onset of renewable power sources accessing the market has created uncertainty in the market, and prices have increased accordingly. Anything that reduces the competition will be in AGL's interest, as it will reduce the supply of baseload power.

AGL has been getting involved in renewable energy plant, particularly solar, over the last few years. They developed the Macarthur Windfarm which is the biggest installed capacity farm in Australia. (420 MW installed capacity, with 35% efficiency)

They have mouthed the platitude that they are changing to renewables. But it is not that simple, and the truth lies elsewhere. They have done so simply because of the political conundrum facing the future of coal and the parallel plethora of climate change policies. Carbon abatement has become the political mantra, and MP's have sprouted in turn a RET scheme, a carbon abatement scheme, a carbon tax, a direct action policy, renewable energy targets, clean energy targets and the like. These policy shifts have caused chaos in the energy investment environment. To assuage that, government has delivered massive subsidies to develop renewable energy supply and a more punitive environment for coal-fired generation.

AGL has seen this coming, and has moved to establish a number of renewable energy facilities, including solar plants at Nyngan (102 MW installed capacity and Broken Hill (53 MW). In doing so it collected over \$250 million in subsidies for a \$440m plant and, courtesy of the RET scheme, which has subsidised the cost of power. It has now sold these to a semi-independent owner for a small profit, but has negotiated favourable off-take agreements to ensure supply.

And for the government, what benefit?

The argument that we must move away from coal has been a blessing for AGL, as it means there will be no more suppliers of thermal baseload power. The removal of their own plant Liddell from the system, which had reached the end of its working life, means better prices for their remaining stations.

But blow me down, in comes the government from negotiating kindergarten and says Liddell must stay open. This is a supposed thorn in the side of AGL, which was banking on its closure. But as compensation, a plant that had no value and an impending horrendous maintenance bill can now either be offloaded for a profit, or alternatively receive some form of subsidy to remain open, courtesy of the government.

At a meeting earlier this week, the government placed three options before AGL for their consideration; to keep Liddell open for a further 5 years from 2022; to sell Liddell to another buyer; or to provide an alternative and equivalent generating source before its closure. For each scenario, and AGL favours the third, it sees the government coffers opening up yet again. AGL has sought and been granted 90 days to come back with a response.

Not to be outdone, Energy Australia has now also advised that it may have to close the 1440 MW Mt Piper power station way ahead of time because of a difficulties in obtaining its supply of coal.

Another government intervention no doubt.

There is a disturbing element to the AGL meeting with the government on Monday. The AGL CEO, last Friday offloaded 50,000 shares at over \$24 per share, pocketing over \$1.2m.

Now this is where the matter should be raising eyebrows. Readers might be aware that the Gunns' Chairman traded shares at a time when it is reported he had inside information, and benefited from the sale of those shares. He was taken to court, and found guilty.

Is this not exactly the exact same scenario? Maybe not, but it is irregular, it is concerning and it needs to be tested. In the short term questions need to be asked by the authorities regarding this share sale, and the appropriate action taken if required. More importantly it should be against the law for any CEO or board member to be trading shares in the company that they are serving. It's a governance matter, pure and simple. Any shares they own or are gifted should be held in escrow for the period of their engagement with the company.

To the question of continuing reliability in the system, new rules of engagement need to be drawn up quickly to ensure there is sufficient backup to cover the unreliability of thermal and solar generators, however it is costed, and preferably without continuing the nonsense of massive subsidies.

The question is whether governments can hold their nerve against short-term pressure being placed on them by expert market manipulators. The signs to date are not promising.

PS Biofuels can also be a source of baseload power, coming from sustainable forest activity, as can nuclear power. Government should be agnostic on this matter. Ideological positions only harm the country.

Councils

Councils have shown they are good at flying flags for causes (with but tenuous links only to Council's activity), but when it comes to matters of substance - their supposed skill base - the skill base would appear to sorely lacking.

Whether it is issues of governance (eg Glenorchy, Huon Valley), or in Hobart running functions (such as the Taste or Carols), providing services, eg parking, allowing development proposals to proceed to application stage (cable car), or ensuring road maintenance (eg Davey and Macquarie Streets), Councils are severely lacking in capacity. It invites and requires State Govt. involvement.

Hobart is now considering mandatory height restrictions on buildings of some 40 metres, even though some buildings are already in excess of that height. The problem with mandatory is just that, it does not take into account particular circumstances. Imagine if Paris had a height restriction – no Eiffel Tower, or Barcelona - no Gaudi Basilica, or Bilbao – no Guggenheim, etc etc .

Now that is not to say that any old high rise is OK, it isn't. But there are some stand-out designs that are challenging and transformative by their nature, and Hobart should not close its mind to also having its own unique statement, as well as maintaining its cultural identity.

Macquarie Point

A final word covers the published desire by THE MPDC to build a bike track through its space. Cost? A lot. It sought finance from the Hobart City Council, which has advised it would consider covering a portion of the cost, but only to the boundary. Back to the drawing board. It seems the MPDC is struggling to even organise a bike track in its Master Plan reset.

Long term plans indeed!