



## Manufacturing Australia policy position: energy debate

Australia's high energy costs and declining energy security are damaging the ability of local manufacturers to compete globally, impacting both potential and current manufacturing investments.

Already, significant investments in energy-intensive manufacturing, by Australian and international companies, have gone offshore because of uncertainty about energy security or high prices, while local investments or expansion opportunities have been put on ice or rejected.

Worse, existing manufacturing operations are under threat, with the business case for undertaking essential re-investments and plant maintenance increasingly scrutinised by boards and executive teams. High energy costs relative to international prices are now very likely to lead to plant closures and job losses in Australian manufacturing.

Federal and State Government energy policy decisions made now will determine whether or not Australia can sustain an internationally competitive industrial manufacturing sector, attract new manufacturing investment and secure the next generation of industrial employment in this country.

### **Finkel Report: Welcome measures to balance energy security and emissions reduction**

The "Finkel Report" marks a turning point in public debate. It crystallises the "tipping point" of energy security problems Australia faces as existing baseload electricity generation retires.

Dr Finkel's emphasis on maintaining inertia, on ensuring adequate dispatchable capacity, on the importance of more efficient gas markets, and on the need for an orderly transition and a "credible and enduring" emissions reduction mechanism are all necessary tools to guide the market into a secure energy future.

Manufacturing Australia particularly endorses the recommendation that "generator reliability obligations" be introduced to ensure that new renewables projects can only enter the system if they can provide adequate dispatchable power, either via storage or commercial arrangements with thermal generators. Clearly, renewables will play an important role in Australia's future energy mix, but reliability issues must be addressed in order to achieve that. The best approach is to have policies that enable an ongoing role for all energy sources, while carefully managing the changes already underway in the energy sector.

The Federal Government has rightly accepted the vast majority of the Finkel Report recommendations. Complementary initiatives announced by the Federal Government, particularly the Australian Domestic Gas Security Mechanism and examination of a "reverse auction" for new baseload power generation, are also welcome. The political leadership in Australia should focus on getting the details of these recommendations right and rebuilding the confidence in our industries, jobs and a country that is open for investment from both producers and consumers of energy.

### **Affordability: the missing piece of the puzzle**

However, while the Finkel Report addresses two key objectives of energy security and emissions reduction, it falls short on the measure of affordability and internationally competitive energy pricing.

To maintain and build Australian manufacturing jobs, we need secure and competitively priced energy. To ensure continued investment in our steel, aluminium, glass, cement, brick, packaging and chemicals manufacturing industries, along with the value chains supported by those industries, Australia should target industrial electricity prices of \$60-\$80 a megawatt hour, in line with comparable advanced industrial economies around the world.

Put simply, lowering electricity prices from around \$120/MWh to around \$100MWh, while our competitors enjoy energy prices vastly lower, is unlikely to secure future investments in energy intensive manufacturing.

By setting specific targets for emissions and energy security, but no target for affordability, it seems likely that affordability will continue to be sacrificed in order to meet other targets.



## Clean Energy Target should be improved, not rejected

Manufacturing Australia recommends the Clean Energy Target be amended to reflect three key principles:

1. *A Clean Energy Target should be truly technology agnostic*
  - New investment in all forms of electricity production should be encouraged, provided new plants utilise best available technologies.
  - As a principle, incentives via subsidy should be kept to the absolute minimum required to meet the balanced outcomes of security, emissions reduction and affordability, and should seek to maintain a level playing field between generation technologies.
  - The emissions threshold should permit new high efficiency, low emissions coal fired electricity plants. New coal plants operating under a CET should only be built using the best available technologies and must compete on cost to consumers, but they should not be ruled out on emissions grounds.
  - Policymakers should also examine what policy design will best meet the third objective of materially lowering electricity prices. This should include modelling the difference between a binary target that offers a full incentive to all new generation that meets the emissions target, versus a sliding scale that awards different incentives to different technologies.
  - Exemptions for Emissions Intensive, Trade Exposed, industries such as those that exist under the current Renewable Energy Target, should remain in place under a Clean Energy Target.
2. *Reforming the domestic gas market should be a pre-condition for a Clean Energy Target*
  - The Clean Energy Target assumes a growing role for gas peaking plants, to replace coal-fired generation as it retires and to balance the intermittency of renewables generation until sufficient, cost effective, storage technology is available at grid scale.
  - This will see Australia's very high gas costs continue to drive higher electricity costs, which is an unacceptable outcome for large industrial energy users.
  - A Clean Energy Target must be accompanied by a range of measures to lower domestic gas prices. This should include: removal of State moratoriums on gas development and increased gas supply into the domestic market, such as via the Australian Market Condition used in Queensland; implementation of the Australian Domestic Gas Security Mechanism; and, implementation of various gas market reforms being undertaken by the ACCC and Dr Michael Vertigan AC to increase the transparency and efficiency of the gas market.
3. *A Clean Energy Target must be coupled with other measures that will help lower electricity prices*
  - State Government renewable energy targets should be removed in deference to a single, national Clean Energy Target.
  - All Federal and State energy and emissions schemes should be reviewed with the express intention of removing duplication or bureaucratic burdens that increase energy costs to consumers. The Federal Government has demonstrated this approach through the removal of the limited merits review process. This should continue at both the State and Federal level.
  - "Good faith" based rules in the National Electricity Market should be revised with an emphasis on providing more specific and objective rules, incorporating oversight and penalties for breaches. In an electricity market that has been transformed by privatisation and corporatisation of generators since the NEM rules were developed, good faith rules are open to broad interpretation and potentially manipulation, which undermines confidence in the NEM governance framework.
  - The maximum price in the NEM should be significantly reduced. Whilst it is understandable that price signals are used to entice higher marginal priced generation, the current \$14,000/MWh maximum is excessive.
  - Changes to the bidding intervals should be made with the objective of driving less contrived, more competitive pricing. The decision on the bidding interval of should be determined by what is most likely to drive a lower price, more competitive system, while being technology neutral.
  - The Federal Government should proceed with a reverse auction scheme to develop new baseload generation at lowest cost, possibly including a carve-out from rules under consideration, in recognition of the real baseload gap now emerging.