

TREASURY MINISTERIAL BRIEF

PDR No: MB17-000046

27 February 2017

Treasurer

cc: Secretary of the Treasury

MEETING WITH CEOS OF MANUFACTURING AUSTRALIA

Timing: You are meeting with the CEOs of Manufacturing Australia at 10:00am on Thursday 2 March, Parliament House. Manufacturing Australia wishes to discuss Australia's Energy competitiveness and energy policies.

KEY POINTS

- The Government is committed to providing secure and affordable energy to meet future energy consumption needs and to underpin strong economic growth.
- The electricity market is in transition. Recent reductions in electricity demand, increases in electricity prices, increases in the price of gas, entry of renewable generation under the Renewable Energy Target (RET) and the retirement of large coal-fired electricity generators are testing the resilience of the National Electricity Market (NEM).
- The Australian Government is undertaking a range of actions to ensure security, affordability, and lowered emissions in the energy sector. An Energy Committee of the Cabinet has been formed, and in-depth analysis of potential options is being undertaken in the *Independent Review into the Future Security of the National Electricity Market* by Dr Finkel, and by the ACCC and Dr Vertigan in relation to the gas market.
- Energy costs are a key input cost in manufacturing. A more expensive and unstable energy system would make it difficult for new investments into manufacturing or re-investment into existing plants.

Electricity Prices

- Electricity prices are rising faster than the Consumer Price Index (CPI), and spot market price variations caused by variables such as weather, generation and fuel mix, and network constraints are likely to increase in the NEM.
 - The electricity price component of the CPI has increased by approximately 112 per cent over the ten years from December 2006 to December 2016.
 - The largest increases in electricity prices, through 2016 to the December quarter, were in South Australia (up 11.6 per cent).
 - Australian purchasing power parity for electricity is slightly above the OECD average.
 - The Australian Government understands that Australian businesses are paying more for their electricity inputs, thus reducing their competitiveness.
- The Government is ensuring that incentives to boost competition, promote innovation and to offer competitively priced electricity are being put into action.
 - Competition is the best way to keep prices low. Steps are being taken to ensure the Australian Energy Regulator (AER) has the resources it needs to enforce competitive standards. [The Government announced a resourcing review for the AER in the last Budget.]

Gas

- Gas is a key input cost for the manufacturing sector. 39 per cent of Australian gas is used for electricity generation, and 31 per cent is used in the manufacturing sector.
 - Gas costs are expected to rise over the next few years. Prices are estimated to fall within an A\$7-8/GJ range, compared to the \$5-6/GJ range of recent years. This is likely due to increased exposure to international gas markets and the international price of gas.
- While overall market demand (domestic and LNG export) is being met, some reputable forecasters project a significant supply shortfall opening up between 2020 and 2030.
 - Regulatory restrictions exist in many states which prevent the exploitation of gas resources, therefore lowering the potential supply of gas to the Australian market.
- The Government has been looking into the state of the gas market, and in mid-2016 the ACCC undertook the *Inquiry into the East Coast Gas Market*, the findings of which were independently reviewed and confirmed by Dr Michael Vertigan in December 2016.
 - The Government is currently looking at implementing solutions based on these findings.

Energy Security

- The composition of the NEM is changing. Closure of existing coal plants will increase short-term electricity costs, and lower baseload power which may increase grid instability.
 - The closure of Hazelwood will take 1600MW or ~4 per cent of capacity from the NEM and is expected to see electricity price increases in Victoria. Further closures of coal power plants are expected. Liddell in NSW (200MW) is expected to close in 2021.
- Dr Alan Finkel is analysing the state of Australia's energy sector and a range of options to improve it in the *Independent Review into the Future Security of the National Electricity Market*.
 - Commissioned by the CoAG Energy Council on 7 October 2016. An independent panel chaired by the Chief Scientist, Dr Alan Finkel is reviewing the NEM's security, reliability, and will advise governments on a coordinated national reform blueprint.
 - The preliminary report was released on 9 December 2016.
 - The final report is expected to be delivered in the first half of 2017.
 - Certain options Finkel is looking at include:
 - : Increased investments in the transmission network's infrastructure, especially in terms of the integration of variable-output renewables.
 - : Reforms to market design, such as increasing information and competition in the market, and the nature of any investment incentives provided
 - : Energy market governance reform in the NEM. To make sure the existing institutions such as the AEMC (rule-maker), AEMO (operator), and AER (regulator) are all doing their jobs as effectively as possible to help secure the reliability and increase the affordability of electricity.

ATTACHMENT A: BIOGRAPHIES

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Contact Officer:

Senior Advisor
Industries, Infrastructure & Environment
Division

ADDITIONAL INFORMATION

a) As at 23 January 2017, the average standing offer annual bill for a two-person household was as follows.

	ACT	NSW	SA	QLD	VIC
Average standing offer annual bill (inc. GST)*	\$1,525	\$1,959	\$2,437	\$1,700	\$1,622

* NOTE: There are a range of market offers and these can offer significant savings. A customer on EnergyAustralia's standing offer in Adelaide, for example, can save \$551 per year if they switch to EnergyAustralia's Flexi Saver market offer.

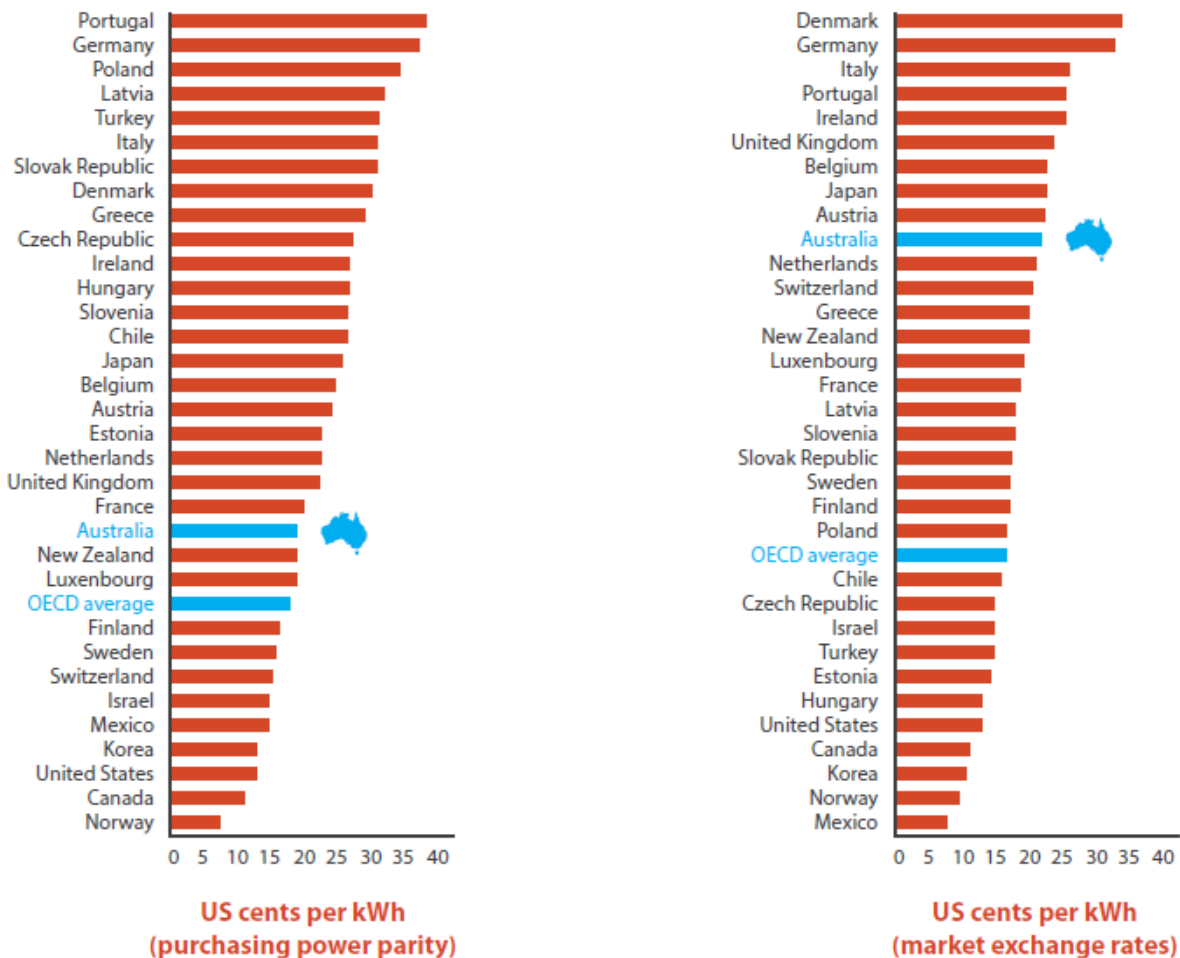
c) Gas consumption by sector 2014-15

	Peta joules (PJ)	%
Electricity generation	553	39
Manufacturing	438	31
- <i>Non-ferrous metals</i>	142	10
- <i>Chemicals</i>	134	9
- <i>Non-metallic minerals</i>	54	4
- <i>Food, beverages, tobacco</i>	37	3
- <i>Petroleum refining</i>	30	2
- <i>Wood, paper, printing</i>	17	1
- <i>Other</i>	24	2
Mining	196	14
Residential	162	11
Commercial and services	58	4
Other	23	2
Total	1431	100

Source: Office of the Chief Economist: 2016

c) Comparison of Australia electricity prices to OECD:

Figure 6.1: OECD household electricity prices 2015



From: s 22
To:
Cc:
Subject: FW: Making market transformation work; final determination on non-scheduled generation; and more [SEC=UNCLASSIFIED]
Date: Wednesday, 13 September 2017 5:43:19 PM

Hi s 22 may be good to (casually) note the Zibelman comment in brief where appropriate.

From: McDonald, Hamish
Sent: Wednesday, 13 September 2017 5:40 PM
To: s 22
Cc: Quinn, Meghan; Dunn, Damien; s 22
Subject: Re: Making market transformation work; final determination on non-scheduled generation; and more [SEC=UNCLASSIFIED]

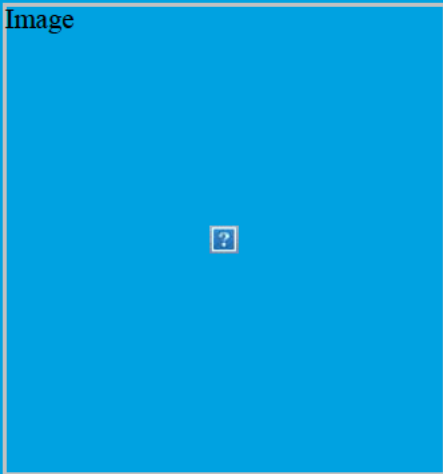
The comment by Audrey Zibelman about not needing to extend Liddell was obviously one of the interesting points.

From: AEMC Update [<mailto:aemc@aemc.gov.au>]
Sent: Tuesday, 12 September 2017 4:43 PM
To: Quinn, Meghan
Subject: Making market transformation work; final determination on non-scheduled generation; and more



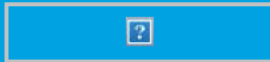
Plug into the latest news from the Australian Energy Market Commission

Image



Making market transformation work

Chairman John Pierce launched consultation into Strategic Priorities for energy market development. This process will be used to inform the COAG Energy Council's strategic energy plan which will be finalised by mid-2018 as recommended by the Finkel review. He was joined by Energy Security Board Independent Chair Dr Kerry Schott and Deputy Chair Clare Savage, AEMO CEO Audrey Zibelman, AER Chair Paula Conboy and Energy Consumers Australia CEO Rosemary Sinclair at a forum to hear stakeholder perspectives on guiding the evolution of the energy market into the long term.



Strategic Priorities discussion paper

In a discussion paper published today, the AEMC raises a number of possible priority actions for governments and energy market bodies to support the delivery of secure and reliable electricity and gas to households and businesses at



the lowest possible cost.



Expedited rule change begins on requiring retailers to notify customers when discounts end

The AEMC has released a consultation paper on a proposed rule change from the Minister for the Environment and Energy requiring retailers to notify customers before their energy discounts expire.



Final determination on non-scheduled generation and load rule change requests

The AEMC published a final determination on the non-scheduled generation and load rule change requests. As the benefits would be uncertain, and the costs likely to flow through to consumers as higher prices, the Commission has decided not to make a rule.



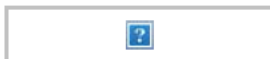
AEMC invites submissions on draft report on regulatory arrangements for embedded networks

A draft report has been published today recommending changes to improve embedded networks customers' access to retail competition and consumer protections. Submissions are due by 17 October 2017.



Have your say: workshop on embedded networks

Join the AEMC Commissioners for a stakeholder workshop to discuss the draft report on regulatory arrangements for embedded networks. The workshop will be held in Sydney on 4 October 2017.





Stakeholder feedback on the review of the frequency operating standard

The AEMC's Reliability Panel today published a draft determination for stage one of the review of the frequency operating standard that applies in the national electricity market. The review is examining the settings in the standard in light of ongoing energy market transformation.



Extension for final rule on generating system model guidelines

The AEMC has extended the date for a final rule for the Generating System Model Guidelines rule change request due to its interdependency with the *Managing power system fault levels rule change request*. Final rules for both will be made on 19 September 2017.



Download the AEMC's calendar of upcoming publications for all current projects as a [PDF](#) or as an [Excel spreadsheet](#).



WHAT'S COMING UP?

19 September

Submissions due on approach and content for *Annual market performance review 2017*

19 September

Submissions due on approach paper for *Coordination of generation and transmission investment*

19 September

Submissions due on issues paper for *Reliability frameworks review*

19 September

Submissions due on consultation paper for *Application of rate of return guidelines to TasNetworks*

19 September

Submissions due on consultation paper for *Declaration of Lack of Reserve conditions*

27 September

Public forum on *Contestability of energy services*

29 September

Submissions due on consultation paper for *Changes to periodic review of market parameters in STTM*

3 October

Submissions due on consultation paper for *Inertia ancillary service market*

10 October
Submissions due on discussion paper for *2017 energy sector strategic priorities*

10 October
Submissions due on draft determination for *Review of the frequency operating standard*

17 October
Submissions due on draft determination for Five minute settlement

17 October
Submissions due on draft report for *Review of regulatory arrangements for embedded networks*

31 October
Submissions due on draft determination for *Contestability of energy services*



CAREER OPPORTUNITIES AT THE AEMC

We have a number of open opportunities at the AEMC for outstanding individuals.

For more information contact Ceri Atkinson on (02) 8296 7808 or follow the link below.



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This email was sent by AEMC, aemc@aemc.gov.au to meghan.quinn@treasury.gov.au

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From: s 22
To: [FG Commonwealth State Relations Division](#)
Subject: Media - Energy committee head says Liddell station "about stuffed" and loan mechanism needed
[SEC=UNCLASSIFIED]
Date: Monday, 11 September 2017 10:01:43 AM

s 22

<https://www.theguardian.com/australia-news/2017/sep/11/energy-committee-head-says-lidell-station-about-stuffed-and-loan-mechanism-needed>

State Engagement and Finances Unit (SEFU)
Commonwealth State Relations Division
The Treasury, Langton Crescent, Parkes ACT 2600

s 22

s 22

From:
To: [Dunn, Damien](#)
Cc: [SRG Energy](#)
Subject: RE: Thermal generators - ownership history [DLM=For-Official-Use-Only]
Date: Monday, 22 May 2017 9:35:28 AM

Morning Damien,

You're right in that AGL has an old fleet. They own 3 coals plants, which are each above the average age for a coal plant in Australia (~25 years):
 Liddell (NSW - 2000MW) – 45 years old – retirement announced for 2022.
 Bayswater (NSW - 2640MW) – 34 years old.
 Loy Yang A (VIC - 2210MW) – 32 years old.

In terms of other incumbents who have aging fleets:
 EnergyAustralia has Yallourn W (VIC - 1480MW) – 41 years old.
 NRG Gladstone has Gladstone (QLD – 1680MW) – 40 years old.
 Sunset Power has Vales Point (NSW - 1320MW) – 38 years old.
 Origin has Eraring (NSW – 3000MW) – 34 years old.

Interestingly, if we look at Victoria, the youngest coal generator is Loy Yang B (1026MW) at 23 years old. However, since it relies on Loy Yang A's coal mine, it would be interesting to know if it is meant to outlive Loy Yang A or retire at the same time.

Regards,

s 22

From: Dunn, Damien
Sent: Sunday, 21 May 2017 5:51 AM
To: SRG Energy
Subject: Re: Thermal generators - ownership history [SEC=UNCLASSIFIED]

From my quick read of this, AGL seems to have the oldest generation assets. So when I think about new entrants and the potential for a large maintenance bill to push out an incumbent, will it mostly fall on the AGL portfolio?

s 22 - could you please have a look at this against the other work on potential plant retirements.

Thanks
 Damien

Sent from my iPhone

On 16 May 2017, at 9:56 am, Peisley, Merrick <Merrick.Peisley@treasury.gov.au> wrote:

Also FYI

s 22

From: [McDonald, Hamish](#)
To: s 22
[SRG Energy](#)
Subject: Re: Vic report into electricity mkt [SEC=UNCLASSIFIED]
Date: Monday, 11 September 2017 7:28:08 PM

Can we make sure we capture these in the ministerial request log (the ^{s 34(3)} one too)

On 11 Sep 2017, at 10:37 am, ^{s 22} wrote:

s 22

Can you please make a start on the request below from the TO?
I'll see if we can touch base with ACCC as well, both to see where they are up to
and whether they can offer insights into the Victorian Report.

Cheers
s 22

From: ^{s 22}
Sent: Monday, 11 September 2017 10:21 AM
To: s 22
Cc:
Subject: Vic report into electricity mkt [SEC=UNCLASSIFIED]

Hi ^{s 22}

We were wondering if it would be possible to get a brief on the Victorian review of electricity and gas retail markets? We're looking for a summary of the report and Treasury views on the recommendations. If it's possible to get this week that would be great, but let me know if that won't be possible.

Thanks

s 22

Adviser

The Hon Scott Morrison MP
Treasurer
s 22

From: s 22
To: [Quinn, Meghan](#)
Cc: [McDonald, Hamish](#); s 22
Subject: s 34(3)
Date: Friday, 8 September 2017 2:37:45 PM
Attachments: s 34(3)

Meghan – our comments on the PM&C brief to raise with Dr Gruen

s 22

s 22

From: s 22
Sent: Monday, 11 September 2017 11:26 AM
To: s 22
Cc:
Subject: s 34(3)

Good morning all,

Please find linked the^{s 34(3)} as it is being worked on. Given the short turn-around on this, it might be worth giving feedback in real-time directly into the document.

Regards,
s 22

Analyst | Structural Reform Group
[The Treasury](#), 1 Langton Cres, Parkes, ACT 2600
s 22

s 22

From: s 22
Sent: Wednesday, 13 September 2017 5:43 PM
To: s 22
Cc:
Subject: s 34(3)

Good afternoon all,

Please find linked the first draft of the ^{s 34(3)} .

s 22 – could you please have a look and let me know where improvements can be made?

s 22 – I haven't had a chance to start on the discussed attachment. Since you had a clear idea on what should go into it, could you perhaps make a start and I can pick up from there tomorrow afternoon?

Kind regards,
s 22

Analyst | Structural Reform Group
[The Treasury](#), 1 Langton Cres, Parkes, ACT 2600
s 22

s 22

From: s 22
Sent: Thursday, 14 September 2017 8:40 AM
To: s 22
Cc:
Subject: AGL Generation Assets [DLM=For-Official-Use-Only]

Good morning s 22

AGL Owns generation assets in NSW, VIC, and SA. According to the AER's latest figures they own 29%, 31%, and 42% of total generation in these states respectively.

This list is not exhaustive, but their major assets are:

Coal:

Liddell (NSW - 2000MW) – 45 years old – retirement announced for 2022.

Bayswater (NSW - 2640MW) – 34 years old.

Loy Yang A (VIC - 2210MW) – 32 years old.

Gas:

Torrens A (SA - 480MW gas sub critical)

Torrens B (SA – 800MW gas sub critical)

Renewables:

Broken Hill Solar Plant (NSW – 53MW)

Nyngan Solar Plant (NSW – 102MW)

Hallet Wind Farms (SA – 350MW)

Macarthur Wind Farm (Vic - 420MW)

Oaklands Hill Wind Farm (Vic – 63MW)

Wattle Point Wind Farm (SA – 91MW)

Hydro:

Kiewa (VIC - 390MW)

Dartmouth Power Station (VIC – 180MW)

Eildon Hydroelectric (VIC – 135MW)

The above list was sourced from AEMO and on-file info, and checked against AGL's website.

Regards,

s 22

Analyst | Structural Reform Group

[The Treasury](#), 1 Lanaton Cres, Parkes, ACT 2600

s 22