

## Australia's biggest electricity system 'on life support' as states take control of the energy transition

By energy reporter [Daniel Mercer](#)

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Victorian Premier Daniel Andrews is touting "clean, government-owned renewable energy". (AAP: Diego Fedele)

A leading Australian energy expert says the country's biggest electricity market is on life support as state and federal governments increasingly take control of the transition to renewable power.

Tony Wood from the Grattan Institute said yesterday's announcement by the Victorian government that it would renationalise part of the state's electricity system was the latest sign governments had "given up" on the market.

"I don't think [the market] is dead but I think we've got the coffin prepared, we've booked the church," Mr Wood said.

"We're just not sure what sort of death it will be."

### Key points:

- The Victorian Government says it will renationalise part of the state's electricity system
- The decision follows similar moves by other governments at state and federal levels
- The Grattan Institute's Tony Wood says governments have all but given

Under the announcement, Victorian Premier Daniel Andrews said a re-elected Labor government would spend \$1 billion on renewable energy assets and explore the possibility of selling electricity directly to consumers.

Mr Andrews unveiled the plans as part of a much more ambitious renewable energy target, which would be lifted to 95 per cent by 2035 and involve the closure of all coal-fired power in the state.

The premier said Labor would also [re-establish Victoria's State Electricity Commission](#) in a bid to drive the changes.

"We'll bring power back into the hands of Victorians by creating government-owned energy – keeping bills down and the lights on," Mr Andrews said.

Mr Wood said the announcement, while more ambitious, was consistent with decisions by other governments at a state and national level in recent times to sideline private energy companies.



Victoria's biggest power plant, the coal-fired Loy Yang A, is set to close a decade early in 2035.

## States 'give up' on energy market

Among them was the Queensland government's decision last month to [bump up its green energy target to 80 per cent by 2035](#) and plough more than \$60 billion into renewable power and transmission projects.

But Mr Wood noted New South Wales was also underwriting massive investments in solar, wind and [battery storage developments](#).

On top of this, the federal government was building the huge Snowy 2.0 hydro project and a gas-fired plant while [rolling out \\$20 billion in spending through its "rewiring the nation" scheme](#).

He said the decisions were undermining the intent of the national electricity market, which supplied more than 10 million customers across the eastern states.

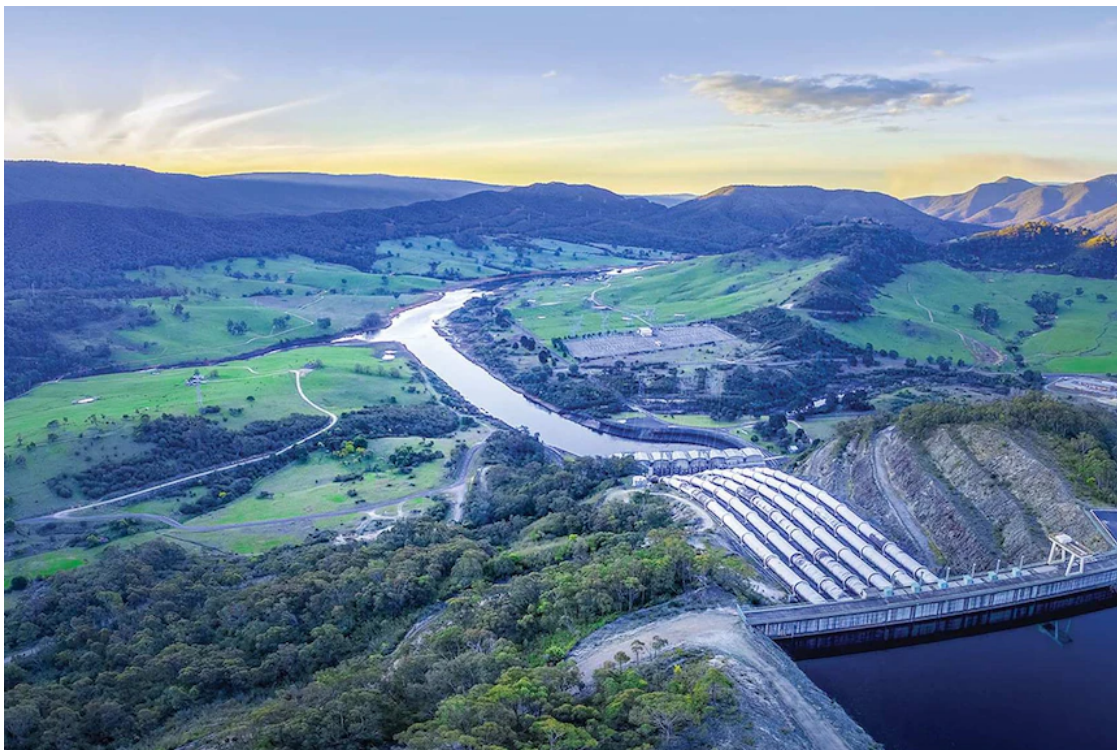
"As a result of the best of a decade of governments and industry trying to work out how they were going to get the energy market to deliver what they want, governments have given up," Mr Wood said.

"They've decided someone needs to take control of the decisions now and it should be them.

"Whether it's Victoria, the Commonwealth, Queensland [or] wherever, that's where we are.

"Some people may think it would be better if we had a well-regulated market but we don't anymore.

"And so maybe this is the least-bad solution to what needs to be done and we'll see how it plays out now."



The Commonwealth is also pushing into the energy market through projects such as Snowy Hydro 2.0. (*Supplied: Snowy Hydro*)

## Record high prices 'add impetus'

Clean Energy Finance director Tim Buckley described Victoria's decision as "excellent", saying that even though the time frame was "aggressive" it would give greater certainty to everybody.

Mr Buckley said wholesale power costs – [which ballooned from about \\$70 a megawatt hour to more than \\$220/MWh this year](#) – were likely to stay high given the ageing nature of coal plants and record prices for the fuel.

As such, the former investment banker said it was imperative that big amounts of new renewable energy capacity were quickly brought online.

Mr Buckley argued governments were well-placed to fast-track the transition because their bigger balance sheets meant they could afford to bankroll more projects.

At the same time, he said that, unlike private energy companies, governments were not motivated purely by commercial interests and did not need to make as much money on their investments.

Offshore wind is seen as a crucial part of Australia's green energy transition, but it doesn't come cheap.

"What the State Electricity Commission is proposed to do is to be a strategic owner and developer of renewable energy assets," Mr Buckley said.

"They don't have to own all of them.

"And the reality is they could easily partner with [a superannuation fund] that could easily co-invest with them but where they keep strategic control of the asset."

He said although it was not ideal that the states were acting alone, they had been left with little choice after 15 years of policy failure at a national level.

"The national electricity market needs absolute, fundamental reform," Mr Buckley said.

"It's not fit for purpose in part because we've had such a chaotic federal energy policy ... under the previous government, which then meant we had each of the state governments going it alone."

### **Taxpayers to bear the risk, AEC says**

Australian Energy Council boss Sarah McNamara, who represents big gas and electricity retailers, has labelled Victoria's decision a "retrograde step".

Ms McNamara said continued interventions by governments in the electricity market were crowding out private companies and destabilising their operations.

She said it made little sense for governments – and by extension taxpayers – to take on so much extra risk when private investors were queuing up to fund the work.

"This announcement has the potential to further punish shareholders – including mum and dad investors – who have invested in the transition in good faith," Ms McNamara said.

"The money being committed by the Victorian government is funding that could be more effectively deployed elsewhere."

Energy expert Tony Wood says governments are taking charge of the energy transition after years of inertia. *(ABC News: Steve Keen)*

Mr Wood said there was little doubt that states were exposing taxpayers to bigger financial risks by taking over parts of the industry, though he noted there were potential upsides to this as well.

He said it was too early to tell whether Victoria's decision would pay off but, either way, it was a clear sign of where Australia's energy industry was heading.

"The idea of semi-nationalisation has been around with us now for quite a long time," Mr Wood said.

"I think what's happened is that mixed model is not working very well.

**"We're not going to get back to a regulated market any time soon – we haven't got time.**

"Therefore, governments have concluded, and not just Victoria, that this is the best way forward."