

Finkel Report: Imagine a world without electricity Perry Sioshansi's Letter from America

The blueprint for Australia's future electricity market pleases some but not all.

"Imagine a world without electricity," those are the starting words of the so-called Finkel Report released in June 2017 amidst much anticipation in Canberra, the capital of Australia. The official name of the report is *Independent Review into the Future Security of the National Electricity Market (NEM): Blueprint for the Future*.

Following last year's blackout in South Australia, Finkel, Australia's Chief Scientist, plus a panel of four other experts, were tasked to propose a blueprint for the future. The panel's mission was to "recommend enhancements to the National Electricity Market (NEM) to optimize security and reliability, and to do so at lowest cost," noting that it is being submitted during a public debate about international commitments under the Paris Agreement. Australia's current government, not unlike the US under President Trump, does not appear wholeheartedly wedded to the global treaty – or equivocates on its commitments.

In the report's preface, Finkel says, "If, as I hope, this blueprint is adopted by you, then our NEM should return to being the high-performance

servant of our community that it once was." As an official report to Australia's Prime Minister Malcolm Turnbull, it says all the right things.

Finkel and his fellow panellists point out the obvious such as, "Australia's electricity system is in transition" and that "the rate of transition is rapid." That much we already know.

Figure 1: Australia's NEM



Source: *Independent review into the future security of the National Electricity Market (NEM): Blueprint for the future*, June

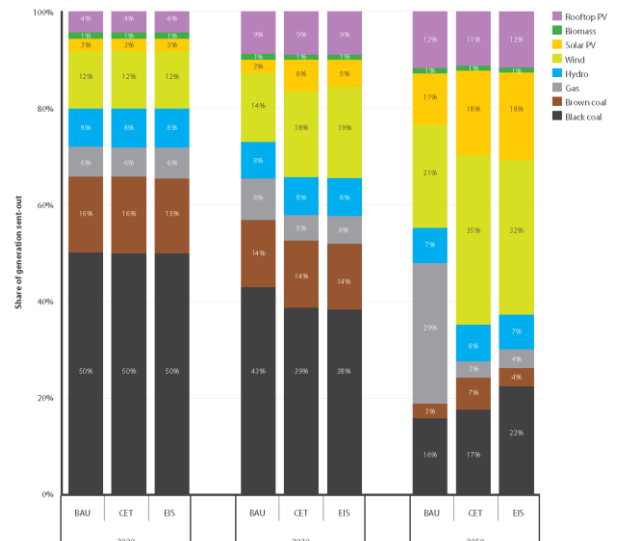
The blueprint also makes other obvious points such as stating that the report is focused on four key outcomes:

- Increased security;
- Future reliability;
- Rewarding consumers; and
- Lower emissions.

Adding, "These outcomes will be underpinned by the three pillars of an orderly transition, better system planning and stronger governance. What is there not to like?"

The report offers many recommendations, more than most can absorb – from mundane to profound. As everyone recognises, it is a rather complicated topic. The bulk of the report is covered by spelling out and embellishing these recommendations. It says, "Australia has a once-in-a-generation opportunity to reshape our electricity system for the future." But is this that future?

Figure 2: Getting cleaner, but not fast enough for some



Source: *Blueprint for the future*, June 2017

While it is hard to say how much of its recommendations will be accepted or implemented, it is fair to say that the report has already generated much publicity – not all in agreement with the report's main recommendations.

The Australian's headline on 14 June 2017 read "Turnbull faces revolt on power." The Australian Financial Review's headline on the same date read: "Coalition in revolt over climate fix." It said: "Finkel has provided a roadmap for energy policy that is determined to set off the freeway of carbon pricing in any form and seek instead the scenic backroads of encouraging renewables without discouraging the burning of coal."

Giles Parkinson, the Editor of *RenewEconomy*, noted that "Finkel has been focused on trying to find a pathway through the toxic energy politics in Australia, and accommodating the Coalition's modest climate targets, rather than seizing the moment and outlining what can and should happen, and what Australia would need to do to meet the Paris climate targets."

Parkinson goes on to say, "Finkel suggests a wave of market and regulatory reforms, but appears to rely heavily on the Australian Energy Market Commission, whose snail-pace approach to reform and new technologies has driven most players crazy with frustration – apart from the incumbents, of course."

Another paradoxical aspect of the Australian energy market is that despite massive reserves of natural gas and rising LNG exports, the current infrastructure is inadequate to deliver sufficient gas to domestic markets resulting in supply scarcities and price spikes, which have led to higher retail energy prices.

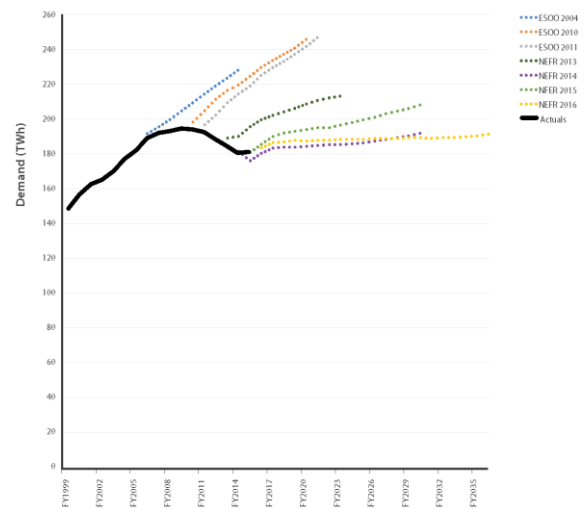
Professor Iain MacGill, Joint Director of Centre for Energy and Environmental Markets (CEEM) at University of NSW, said: "Finkel had the impossible job navigating between the challenge of affordability, security and environment, and the policy sensitivities of the present Coalition government, in particular its conservative wing."

"As such, the report is more oriented towards political science than climate science," adding, "It certainly provides a possible basis for breaking the present climate policy deadlock in Australia with its proposal for a clean energy target ..."

In MacGill's opinion, "Regardless of its limitation, the key work of implementing coherent and effective climate and energy policy still lies before us."

Bruce Mountain, Director of Carbon and Energy Markets (CME), writing in the *Australian Financial Review* (10-11 June 2017) said, "The remit of the Review, and Dr. Finkel's approach to it, has been to focus on electricity production and in particular

Figure 3: Australian electricity demand no more



Source: *Blueprint for the future*, June 2017

greater short-term power system security and a pathway to investment in lower emission generation in the longer term."

He added: "Necessary and worthwhile as this may be, the main part of Australia's electricity pricing problems do not lie in the costs of producing electricity. For all but the very biggest electricity users, the charge for transporting electricity and the charge for selling it is much more significant than the charge for its production. It is expansion in these network and retailers' charges that explains Australia's precipitate decline from the top to the bottom ranking in international electricity price league tables. The issue underlying such dismal failure – political economy – remains completely untouched."

Mountain adds: "Almost 250 years ago Adam Smith exhorted: 'Consumption is the sole end and purpose of all production and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer.' It is a famous phrase, cited as often as it is ignored."

There is certainly a lot to read in the Finkel report, and depending on one's perspective and vested interests, there is something for most, if not in the whole, then certainly in parts of the blueprint.

It remains to be seen how the blueprint's recommendations will be implemented and when.

Perry Sioshansi is Founder and President of Menlo Energy Economics and is the editor and publisher of EEnergy Informer, from which we have sourced this article, and which we commend.