NATIONAL CABINET AGREES ON FOSSIL FUEL PRICE CAPS, ENERGY REBATES
Tim Buckley, 9 December 2022

As energy ministers and the national cabinet met this week to nut out solutions to the fossil fuel energy price crisis crushing Australians – ultimately including caps on coal and gas prices – we did the maths: multinational fossil fuel corporations operating in Australia will book a staggering $120-140 billion gross profit this calendar year on exports of our sovereign public LNG and coal assets.

In other words, as millions of Australian households and businesses are plunged into economic hardship by energy bill shock, exacerbating inflationary pressures, mortgage stress and skyrocketing cost of living, fossil fuel majors are banking windfall war profits from Putin's invasion of Ukraine and sanctions against Russian fossil fuels. And the vast majority of these multinationals have paid next to no corporate tax here in the last eight years.

This situation is a clear fiscal policy and regulatory failure. It requires a policy solution as an urgent political and pragmatic necessity. Thankfully, on Australian energy policy, the adults are back in the room.

The federal and NSW governments have yet to tax multinationals' windfall war profits, as in the UK and elsewhere. Only Queensland has moved with courage on a progressive coal export tax regime, and this week confirmed the return to the people of the state in 2022/23 will exceed $10.7 billion, double expectations six months ago.

But pleasingly, national cabinet has today agreed to a four part energy price relief plan. This includes a mandatory code of conduct for the gas industry applying a $12 per gigajoule cap on domestic prices for one year, with parliament recalled to next week to legislate it. The federal government also agreed with NSW and Queensland to apply a $125 per tonne cap on domestic use of coal, also for one year. This will put immediate downward pressure on wholesale electricity and gas prices from the extremes seen in mid-2022 (more than triple that of 2021).

The third component is a $1.5 billion support package designed to provide assistance to households and businesses by directly reducing bills, offsetting the current energy price hyperinflation likely to continue throughout 2023 while avoiding adding inflationary pressure. These measures are welcome.

The fourth element of the plan – "securing Australia's energy future" – is the basis of the real, lasting solution: accelerating the build out of new renewable energy plus storage and modernising our grid infrastructure. It is this that will trigger the decarbonisation of our economy, permanently driving Australian wholesale electricity prices down by 60-70% from the 2022 levels within a decade.

A critical part of this was state and federal energy ministers' agreement this week on a renewable energy capacity investment mechanism that commits the Commonwealth to underwriting the development of renewables with storage. This will be supported by the government's **$20 billion Rewiring the Nation plan**, which underpins a massive buildout of energy transmission infrastructure.

The capacity mechanism focuses on shoring up grid reliability and triggering significant new investment in renewables. This will dramatically lower energy prices and hasten an orderly energy transition away from polluting, ultra-expensive, volatile and aging coal and gas generation, while enabling sufficient dispatchable energy capacity in our grid and the associated firming capacity needed to underpin stability, including batteries, demand response management and pumped hydro storage.

Importantly, the mechanism will only apply to zero emissions solutions, with coal and gas excluded. The Morrison government's 'Coalkeeper' capacity mechanism plans are dead, buried and cremated.

Energy minister Chris Bowen said the mechanism would unleash at least $10 billion of new investment for 6 gigawatts of firmed renewables capacity. This sends an important market signal to "crowd-in" private capital renewables investment at the speed and scale required to offset the accelerating early closures of our thermal coal power clunkers fleet. Global capital markets are primed to invest, as demonstrated, for example, by Twiggy Forrest company Squadron's $4 billion acquisition this week of clean energy developer CWP Renewables, and $750 billion global asset manager Brookfield's $18 billion to acquire Origin Energy, promising a further $20 billion follow-on investment.

The energy ministers also agreed to act on the growing risks to sourcing of key energy transition inputs, such as critical minerals, wind turbines, batteries, electrolysers and associated specialised clean technology construction equipment, with global deployment of renewables massively accelerating as the IEA reported this week. Significantly, the states and commonwealth will now collaborate on sourcing and potentially using their collective buying capacity to underwrite domestic component manufacturing capacity, building jobs and investment and smoothing the transition in regional Australia.

Finally, we are turning around the lost decade of opportunity that is the sorry legacy of the federal LNP's energy policy failures. The Albanese government is to be applauded for leading the new spirit of national cooperation underpinning our energy transformation, and acting to ease power price agony inflicted by the fossil fuel industry on Australians.