



Information Bulletin

Finkel Review – Preliminary Report
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The Independent Review into the Future Security of the National Energy Market, led by the Commonwealth Chief Scientist Dr Alan Finkel, published its Preliminary Report on Friday 9 December 2016.

The COAG Energy Council commissioned Dr Finkel and an expert panel to develop a 'national reform blueprint' for the National Electricity Market at an extraordinary meeting on 7 October 2016 following the System Black event in South Australia. Further background information on the Review, and a summary of the meeting Energy Consumers Australia had with Dr Finkel and the review team on 3 November 2016, is available on our [website](#).

This Information Bulletin provides a brief summary of the [Preliminary Report](#). We note that the joint Australian Energy Market Commission (AEMC) and Australian Energy Market Operator (AEMO) Report on the [Integration of energy and emissions reduction policy](#) (the Report) was also published on the same day, while the [2017 Review of Australia's Climate Change Policies](#) was announced earlier in the week.

The Preliminary Report was released following a meeting of the Prime Minister, the Premiers and Chief Ministers at the COAG Leaders meeting on Friday 9 December 2016 in Canberra. Dr Finkel attended the meeting to brief leaders on the Preliminary Report.

Energy Consumers Australia welcomed the Preliminary Report's focus on affordability and expanding choice for consumers through the transition to cleaner economy in a [media statement](#). ABC Radio's AM program interviewed Acting CEO Lynne Gallagher about the Preliminary Report for a [story](#) that went to air on Saturday morning.

Dr Finkel briefed the COAG Energy Council on the Preliminary Report on Wednesday 14 December 2016. The Energy Council [Communique](#) stated that:

"The future security of the National Electricity market (NEM) remains the top priority of the Council."

The Energy Council agreed on 14 December 2016 to fast-track additional measures to strengthen the NEM and "accelerate proof-of concept projects in order to respond to security and reliability issues identified in the Preliminary Report". Ministers will consider these measures in February 2017.

Analysis from the Report, including the impacts of the three options for emissions reductions policies, is being considered by Dr Finkel and the Review.

Next steps

The Review is now consulting on the Preliminary Report, with submissions due by 21 February 2016.

Energy Consumers Australia will convene a teleconference for consumer advocates and other interested stakeholders to discuss the Preliminary Report on Thursday, 19 January, 2017. Calendar invitations with further details will follow this Information Bulletin. If you do not receive an invitation but would like to participate, please contact Oliver Derum on 02 9220 5514, or oliver.derum@energyconsumersaustralia.com.au.

The Finkel Review remains on track to present a final report to the COAG Energy Council in the first half of 2017.

Overview of the Preliminary Report

Although the Preliminary Report is styled as an issues paper – setting out ‘observations and questions’ – it is clear that Dr Finkel and the review team have made substantial progress since they came together in October 2016 and have a well-developed mental picture of the issues facing the energy market. While the 64-page report comprises seven chapters, each of which explores a ‘theme’ that has emerged in the Review’s work to date, it might be more accurately described as a set of early, but clearly expressed ‘findings’.

The chapters follow a consistent structure, with each beginning with a high-level discussion, followed by a set of consultation questions supported by a preamble. These preambles really go to the nub of the matter, so rather than trying to paraphrase, we set them out with the chapter titles below:

1. Technology is transforming the electricity sector

The energy market is changing. New technologies create opportunities for a more integrated, predictable and responsive system, including to better manage peak congestion and provide reliability at lower cost. There are opportunities for new businesses and service models to meet this need. But if the integration of these technologies is not well managed, they could have a detrimental impact on security.

2. Consumers are driving change

Consumers are helping to drive energy sector transition by embracing new technologies, choosing ways to better manage their energy costs and help reduce our emissions. The increasingly active role of consumers will be important in supporting the future security and affordability of the power system, but this requires the right prices and incentives. It will be important to address the needs of vulnerable groups.

3. The transition to a low emissions economy is underway

The world is acting to reduce greenhouse gas emissions. Australia has a target to reduce emissions by 26 to 28 per cent below 2005 levels by 2030. The electricity sector has an important role to play in achieving Australia’s emissions reduction targets. Not only is it Australia’s largest source of emissions, but also a large source of opportunity for abatement and innovation.

This will require stable and effective emissions reduction policies to support the necessary investment in long-lived generation and network assets while maintaining security and reliability.

4. Variable renewable electricity generators, such as wind and solar PV, can be effectively integrated into the system

The closure of coal-fired generators and their replacement with wind and solar PV generators has technical implications for the security and reliability of the power system. This is because wind and solar PV generators lack spinning inertia and the ability to contribute to medium and long-term frequency control, reactive power control, system voltage control, and system restart. Gas-fired generators can help address technical challenges, but there has been a reduction in gas-fired generation capacity. Work is underway on implementing technical and market solutions to increase grid security and reliability.

5. Market design can support security and reliability

The design of the NEM has significant implications for maintaining security and reliability objectives in the context of the transition taking place in the electricity sector. It is critical that the design of the NEM provides appropriate incentives for efficient investments that achieve secure and reliable electricity supply.

6. Prices have risen substantially in the last five years

Australians have experienced rising electricity prices in recent years. Affordability must be an important consideration as the regulatory framework seeks to also meet the objectives of energy security and reduced emissions. Where new measures are proposed to meet security and reliability objectives, it is critical that the potential impact on affordability is minimised and any trade-off between the objectives is transparent and reflects the long term interests of consumers. This will require attention to the costs associated with each element of the NEM: distribution and transmission networks, wholesale electricity generation, and electricity retail.

7. Energy market governance is critical

Effective energy market governance is essential for managing the transition that is currently underway in Australia's energy market. The Review is considering whether the current institutional architecture can do this and support effective national coordination of energy policy.

Our initial reactions

Although we will be taking the time in the coming weeks to work through the detail of the Preliminary Report, we are encouraged by the prominence given to energy consumers in the discussion and analysis. In this section, we discuss some of the key observations we make about the approach, content and tone of the Preliminary Report.

Costs and affordability prominent

The price rises that consumers have had to bear over the last six years are discussed at length in Chapter 6, and it does not shy away from the fact that higher wholesale prices are likely to place further upward pressure on retail prices over the next three years.

The Preliminary Report also contains strong statements about the need to maintain affordability through the transition – particularly for those who do not have the resources to invest in technology to manage their consumption and costs or face other barriers to engaging in the market. We are pleased to see the challenges that consumers with limited English language skills or financial literacy issues are also recognised.

Not security at any price

Importantly, the Preliminary Report goes beyond simple statements about the importance of keeping a lid on costs and managing affordability, and actually factors them into the analysis and discussion about system security and reliability. The Preliminary Report does this in the first instance by attempting to place consumers at the heart of the ‘energy trilemma’: a way of conceptualising the potentially competing objectives of security and reliability, affordability, and emissions reduction. As it states on page 10:

It is consumers who will pay the price on how the balance is struck between security, affordability and environmental objectives.

The Review appears therefore to be conscious that the task is not to deliver ‘security at any price’. It references a report by the Productivity Commission that found that reliability levels had been set at a level that went beyond what consumers actually valued (see page 44), while it also recognises the need to ensure that the standards that are set are delivered in the most cost effective way:

...rather than just making available more supply (as is usually the focus), the cost of achieving security can be lowered by actively managing demand.¹

Optimistic but not ‘rose tinted’ about technology

The Preliminary Report indicates that the Review is optimistic about role that technology can play in the new market. There are a number of instances in the report where a problem is identified and then the availability of a technical solution is set out in a simple declarative way. For example, in relation to the challenge of maintaining the stability of the grid as we lose the traditional source of inertia in the shift from coal-fired generation to wind and solar PV, the Preliminary Report states:

Fortunately, solutions are available to effectively integrate variable renewable electricity generators into the electricity grid, but we will have to change the way we operate.²

It is also upbeat about the role that technology will play in not just fixing problems, but also in improving outcomes for consumers:

...rapid innovation is...providing the opportunity for consumers to change from being passive participants in the electricity sector to active players.³

But it does acknowledge the risks that

There are inevitably challenges integrating new technologies and services into existing markets and regulatory arrangements, which if not properly managed could lead to adverse outcomes for consumers.⁴

Contact details for the Finkel Review

Information on the Finkel Review can be found [here](#).

The email address for contacting the Review is NEMSecurityReview@environment.gov.au.

¹ Preliminary Report page 17

² Preliminary Report page 3.

³ Preliminary Report page 16.

⁴ Preliminary Report page 12.