Australia’s energy crisis exposes market failure

Mike Head
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Both Prime Minister Malcolm Turnbull and South Australian Premier Jay Weatherill made desperate announcements last week, claiming to resolve the worsening electricity crisis that has caused serious blackouts in recent months and sent household prices soaring over the past decade.

The failure of the national energy market was highlighted last September, when the entire state of South Australia lost power, plunging homes, hospitals and industrial plants into darkness for many hours. After storms knocked down transmission towers, supplies were shut off, supposedly to protect the national grid from instability. In February, under life-threatening heatwave conditions, the Australian Energy Market Operator (AEMO) cut off supplies to various areas.

Vague promises were made were made last week. Turnbull said his federal Liberal-National Coalition government would initiate a feasibility study into expanding the Snowy Mountains hydro-electricity system. He claimed that a $2 billion project to supply emergency back-up supplies could be completed in five years.

According to the prime minister, this would increase the scheme’s generation capacity by 50 percent to 2,000 megawatts, reputedly enough to power 500,000 homes. This “electricity game-changer” would also “ultimately mean cheaper power prices.”

After meeting gas company chiefs, Turnbull further insisted he had “guarantees” from them to divert supplies from lucrative liquefied natural gas (LNG) export markets to the domestic electricity grid during peak demand periods, even though they would receive far lower prices by doing so. But he gave no details of how much gas would be supplied or when it would be available. Two LNG companies had agreed to increase their domestic supplies, he claimed, while a third would “take it on notice.”

Weatherill said his state Labor government would commission a new $360 million 250 megawatt gas-fired power plant and call tenders for the installation of a 100 megawatt battery storage plant, to provide his state with its own back-up power. It was a “dramatic intervention” to address the “failure” of the national market, he said, but could not say where or when the plants would be built.

Several industry experts pointed out that these plans, even taken together, were insufficient to ensure adequate supplies and would come too late to solve the immediate problems of power outages. Moreover, the Snowy plan, which involves pumping diverted river water back up into dams, would have reduced capacity during periods of drought.

More fundamentally, however, all the announcements were based on the proposition that the privatised electricity market—dominated by profiteering power generation, distribution and retailing companies—can rectify the economic and social disaster it has itself produced.

During the September and February breakdowns, spare generating capacity was actually available but the owners of key plants kept their facilities offline as part of a systemic practice of driving up “spot” prices during peak demand periods.

Several studies in recent years have documented this practice, which has generated huge spikes in short-term wholesale electricity prices, sometimes rising to $14,000 per megawatt hour from the usual figure below $100.

A Melbourne Energy Institute study found 41 occasions in 2015 when the Snowy Hydro’s Angaston diesel generator in South Australia withdrew supply, pushing up spot prices. Combined, those 41 occasions delivered an additional $30.3 million in profit.

This price manipulation is perfectly legal because the electricity market is designed to allow power-generating companies to decide whether or not to sell their electricity, depending on price. As a result, the adequacy of the electricity supply—an essential ingredient of modern life, especially during extreme weather—is determined by corporate profit, not social need.

Last week, a report by the Grattan Institute, a business-funded think tank, provided further insight into the operations of the profit-driven system. It showed that retail electricity prices in four major cities—Sydney, Melbourne, Brisbane and Adelaide—have almost doubled since 2005, when the deregulated "retail contestable" pricing system began to take effect.

Over that decade, distribution costs have increased by only about 10 percent, and wholesale electricity costs have fallen by about one-third, allowing the retail suppliers to make what the Grattan report described as "excessive" profits.

In other words, while working class households have been suffering ever-greater difficulties in paying electricity bills, on top of other sky-rocketing utility and housing costs, the three companies dominating the retail market—AGL, Energy Australia and Origin—have reaped a windfall.

Rampant profiteering has taken hold since the 1990s, when the Keating Labor government initiated the process of privatising the government-owned businesses that were responsible for the generation, transmission, distribution and retailing of electricity in each state and territory. Labor said a "national competition policy" would deliver significant benefits to consumers by providing incentives to producers to be efficient, innovate and lower their prices.

Implemented from 1995 onward, the resulting selloff of electricity corporations led directly to the opposite—inflated prices, inadequate investment in generating and transmission facilities, and unreliable services. The only consumers to benefit were businesses. Between 1990-91 and 2003-04, according to the Grattan report, their bills fell on average by 27 percent in real terms, while residential bills began to rise.

In addition, thousands of electricity industry and other public sector jobs were destroyed. Between the mid-1990s and 2003, employment in the sector fell from 83,000 to 33,000.

This drive deepened under the Labor government of Prime Minister Julia Gillard. Its 2012 Energy White Paper demanded that state governments privatise the remaining electricity assets, then estimated to be worth more than $100 billion, delivering bonanzas to the financial markets and associated business interests.

Both Turnbull and Weatherill declared their readiness to use all the powers available to their governments to fix the energy crisis. Turnbull said he could revoke gas export licences and Weatherill threatened to instruct power-generating companies to supply electricity during critical periods. In reality, their proposals leave intact the corporate stranglehold over the electricity grid.

As result, the energy crisis will only worsen. At the end of this month, French energy giant ENGIE is due to close a 1,600 megawatt coal-fired power station at Hazelwood, axing more than 750 jobs and taking out about 25 percent of the base load electricity capacity in the state of Victoria. Already, energy traders are cashing in on the expected shortages. On the futures market last Wednesday, the June contract for electricity in Victoria hit $147.50 per megawatt hour, compared to a price for the March contract of $80.

The debacle produced by Australia's corporate electricity market is reminiscent of the Enron crisis in the US. The energy conglomerate created artificial power shortages to allow traders to sell power at much higher prices, but ultimately imploded in 2001 in what was then the largest corporate bankruptcy in American history.

Similar practices led this month to more than a million homes, schools and businesses in Detroit and across Michigan enduring disastrous power outages. Rather than investing in serious infrastructure upgrades, the electricity companies responsible are involved in speculative Enron-style energy trading, as well as far more profitable natural gas projects.

These are not aberrations. They epitomise the increasingly decayed and parasitic character of the capitalist profit system. Essential utilities, such as electricity, gas, phone and Internet connections, which should be available to everyone as a basic social right, are being subordinated to the relentless demands of the financial elite for ever-higher investor returns.