

# Australia: Labor's "capacity mechanism" to reward profit-hungry energy companies

Terry Cook  
8 July 2022

Under the direction of Australia's Labor government, the Energy Security Board (ESB) is drawing up plans for a "capacity mechanism," supposedly to ensure the generation of electricity in periods of high demands and prevent blackouts, such as those threatened last month.

In reality, the mechanism will primarily operate to shield the corporate and financial entities that own and control Australia's energy industry from any losses, serving as yet another means to transfer billions of dollars into company coffers.

Under the scheme the generating companies would be paid not just for the electricity they actually provide to the national grid but for "ensuring capacity," that is for agreeing to have the means to generate electricity on standby.

The plan could see massive sums of money flow to coal and gas generating companies that are major contributors to greenhouse gas emissions but can fire up power stations in a matter of hours. Hydro generators and renewable energy companies, also could be eligible for massive payments.

Such a pro-business mechanism had been discussed under the former Liberal-National Coalition government but a draft plan was fast tracked at a meeting called by federal Labor Energy Minister Chris Bowen with state and territory energy ministers last month. It instructed the EBS to deliver its recommendations on the scheme by the end of this year.

Asked at a press conference following the meeting, "do you support coal being included in the funding?" Bowen gave a convoluted response that avoided ruling out payments to coal generators under the scheme. "I support it supporting new technologies, so particularly storage technologies and renewables," he said. "But, of course, it's designed to improve the capacity in the

system."

While some states, such as Victoria, have ruled out capacity payments to coal and gas generators, during demand upsurges they would draw on electricity produced by such generating facilities in other states.

Bowen's response exposes the fraud of Labor's supposed commitment to cutting greenhouse gas emissions by 43 percent from a 2005 baseline by 2030, a reduction that is itself wholly inadequate to halt climate change.

Events last month highlighted the potentially catastrophic failure of Australia's energy "market." Blackouts loomed across several states when electricity-generating companies deliberately withdrew available energy from the market in a calculated bid to access multi-million dollar compensation payments.

The Australian Energy Market Operator (AEMO), the industry regulator, initially imposed temporary price control caps of \$300 per megawatt-hour (MWh) as wholesale electricity prices soared, averaging more than \$675 per MWh, amid sky-rocketing global gas and coal prices.

The generators wanted to force AEMO to instruct them to make capacity available to the grid. That would entitle them to much higher handouts under the National Electricity Rules than they would qualify for by incurring alleged losses for operating under the \$300 MWh cap.

At the press conference, Bowen referred fleetingly to the crisis produced by the withholding of supply but made not even the mildest condemnation of the predatory operation of the generating companies, which threatened to cut power to millions of households and vital services such as hospitals.

Instead Bowen said he and the state and territory energy ministers had agreed to work to enhance the

powers of the industry regulators to “ensure that they have full transparency” and “ensure that all behaviour is in the best interests of the market and consumers at all times.”

Such declarations are a smokescreen designed to cover up what was made all too apparent in last month’s energy crisis: The market operates in the interests of the corporate elite, not that of the millions of ordinary consumers.

In fact, the companies, such as Origin Energy, AGL and EnergyAustralia, sent a clear message that they would thwart any regulatory measures, like AMEO’s temporary price controls, that in any way impinged on their drive for profits.

AEMO had to temporarily suspend the spot market for wholesale electricity for the first time since 1998. According to the *Australian Financial Review*, that move alone resulted in AEMO compensating power companies to the tune of “hundreds of millions” of dollars.

Based on AEMO data, payments could total \$1.5 billion for market interventions made before and during the suspension. This will be recouped through increased consumer electricity charges, which charity organisation St Vincent de Paul Society estimates could average \$70 per bill.

However, better-off consumers with solar and energy-efficient appliances are likely to pay significantly less than renters and homeowners without such assets.

Such pro-business proposals as the “capacity mechanism” are in line with Labor’s decades-long role in facilitating the privatisation of the power industry.

This began in the 1990s under the Keating Labor government, which initiated the selling off of generation, distribution and retailing of electricity to lay the foundations for the National Electricity Market, which became operational in 1998. The process accelerated under the Gillard Labor government’s 2012 Energy White Paper, which demanded that state governments privatise their remaining electricity assets.

This offensive was facilitated at every step by the trade unions. They worked to divert the widespread popular opposition that continually erupted, including among power workers, into limited protest activity and bankrupt appeals to governments to change course.

The energy crisis in Australia mirrors that around the globe where the operation of such vital facilities has

been privatised or corporatised and deregulated to provide a bonanza to corporate operators and financial investors.

In February last year, the US state of Texas suffered extensive power blackouts, leading to the loss of clean water for half the state’s population and multiple deaths. In 2018, Argentina experienced the most severe blackout in its history due to decades of neglect, despite massive subsidies to energy companies to supposedly maintain and improve the infrastructure.

Such developments demonstrate that vital assets such as power generation and distribution cannot be left in the hands of capitalist companies intent only on profit. Nor can any faith be placed in governments, like Labor, that serve their interests.

The threat of power shortages that impact directly on the life and wellbeing of tens of millions of people can be answered only by the working class in a conscious struggle to reorganise society to meet social need, not private profits.

This requires the building of a network of rank-and-file workplace and community committees, totally independent of the unions, to organise the fight for workers’ governments that will place the power industry, along with all essential utilities and the banks, under public ownership and democratic workers’ control.

The removal of the profit motive would create the conditions for scientific planning to address climate change, make a rationally-organised transition to renewable energy and develop the necessary infrastructure for the reliable provision of energy under all conditions.



To contact the WSWS and the Socialist Equality Party visit:

**[wsws.org/contact](https://wsws.org/contact)**