Citizens Electoral Council of Australia

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Independent Political Party

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South Australia's electricity crisis is a green market failure

Australia must scrap the delusional Renewable Energy Target (RET), the National Electricity Market, and electricity privatisation, or follow guinea-pig state South Australia into an energy disaster that harms vulnerable people and productive industries alike. South Australia is now suffering a power crisis that threatens to shut the doors of numerous businesses and destroy much of what's left of the State's ailing economy. In just the past three weeks the Australian Industry Group has estimated electricity price spikes to have cost in excess of $150 million. Some of SA's largest employers—BHP Billiton, Arrium, Adelaide Brighton Cement and the Nyrstar smelter at Port Pirie—have raised serious concerns about the cost of doing business in the State. Many small businesses wonder how much longer they can survive. Welfare groups cite rising power prices as the number one issue being raised with their financial counsellors.

On 9 May 2016 Alinta Energy closed its 544 megawatt (MW) Northern Power Station near Port Augusta, following the mothballing of its nearby 240 MW Playford B Power Station in 2012. Leigh Creek Coal Mine that supplied these power stations is closed and now South Australia has no coal-fired power stations at all.

Spot prices on the electricity market have soared. The average daily spot price in May, according to the Australian Energy Market Operator (AEMO), was $46.82 per megawatt hour (MWh) up until the Northern Power Station was turned off, before jumping to $80.47/MWh for the remainder of the month. The June average of $123.10/MWh was more than double the value for the year prior. And the July average, as of 26 July was $262.97/MWh.

During the 2015 financial year, gas accounted for 37 per cent of the electricity generated in South Australia, wind 34 per cent, coal 23 per cent, and solar 7 per cent. Additionally, the State imported around 10 per cent of its total power from Victoria via an interconnector, to meet demand when there was not enough local capacity—a frequent occurrence when relying on intermittent "renewables".

South Australia is the largest producer of wind energy in Australia and with an installed capacity of 1,473 MW; under ideal conditions wind power could meet 100 per cent of electricity demand. But wind power mostly provides only a small fraction of demand and on some days no power at all. On 7 July, in calm weather, all wind farms in South Australia produced a miserable 190 MW between 6:00 AM and 7:00 AM. By early afternoon the energy generation was in deficit as the turbines consumed more power than they produced (!); at 2:20 PM, energy generation by all wind farms was -2 MW. As a result, wholesale electricity prices on 7 July averaged a crippling $1,251.86/MWh and major businesses threatened to shut down.

Electricity price hikes are smashing small and medium businesses. South Australian components manufacturer Alfon Engineering's CEO Fred Moore said power prices had increased by almost 50 per cent in the business's latest contract. Its monthly electricity bill until the end of May was about $3,000, and last month it increased to just under $4,500/month. "I don't know how long the company is going to be able to afford it," Mr Moore said. The 12-month contract will see the company's bill skyrocket from about $36,000 last financial year to about $54,000.

A Frontier Economics report published last July foreshadowed such problems, warning that if the State shut down the Northern Power Station, "South Australia may face load shedding events and potentially even a statewide blackout". "The people of South Australia are increasingly likely to bear increased electricity costs as wind makes up a greater proportion of South Australian generation," the report said.

An August 2014 report titled "South Australian Disconnection Project", prepared by public-policy consultancy Urbis for the South Australian Council of Social Service, highlighted the crisis even at that time: "South Australia has the highest rate of disconnection from electricity in Australia. The disconnection rate is increasing, and the number of residential electricity disconnections in South Australia has more than doubled in the last four years."

The Renewable Energy Target—implemented by the Howard government on April Fools' Day of 2001—that compels electricity companies to purchase expensive "renewables", must be scrapped. Electricity generation and the distribution network must be returned to public ownership. Even Australian Competition and Consumer Commission boss Rod Sims now admits what most Australians have always known: electricity privatisation is a disaster. State-run power stations delivered cheap reliable electricity not subject to market manipulation; we must restore this proven model, and invest in generation capacity that *exceeds* demand. Then we will never risk running short, and will have surplus power to accommodate industrial expansion.

Adapted from *Australian Alert Service*, 27 July 2016.

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9 August 2016

Glass-Steagall urgent as global storm brews in European banking system

The Australian and US stock markets are whistling past the graveyard, on record-breaking runs while in total denial that Europe's banking system is ready to blow at any moment. How do we know? Just look at the panic that ensued after the European Banking Authority (EBA) attempted to restore confidence by defying reality. The Executive Summary of the EBA's 29 July press release on the results of the latest EU-wide bank stress tests concluded: "The outcome demonstrates resilience in the EU banking sector as a whole thanks to significant capital raising." Did this instil confidence? No! The *Financial Times* 2 August article "European bank shares fall in brutal start to August" displayed a chart with the loss in value of five major European banks since the stress tests results were published: UniCredit -15.9 per cent; Commerzbank -11.2 per cent; Deutsche Bank -6.6 per cent; Credit Suisse -6.1 per cent; Barclays -5.4 per cent.

In a panic, on 4 August the Bank of England cut official interest rates for the first time since 2009, from 0.5 per cent to a new record low of 0.25 per cent, and signalled further cuts in the coming months. In addition, the bank committed to more quantitative easing (QE), including the purchase of up to £10 billion in UK corporate bonds and an expansion of the Asset Purchase Programme for UK government bonds of £60 billion, taking the total stock of these asset purchases to £435 billion.

The EBA's stress test, giving most European banks a clean bill of health, could honestly only be described as a fake. A couple of days earlier, three academic economists—Prof. Sascha Steffen, Chair of Financial Markets at the University of Mannheim; Prof. Viral Acharya of New York University's Stern School of Business; and Assistant Prof. Diane Pierret of the University of Lausanne's Institute of Banking and Finance in Switzerland—presented the results of a real stress test, which showed that European banks would need close to an extra *US$1 trillion* to withstand a crisis. In their 27 July paper "Capital Shortfalls of European Banks since the Start of the Banking Union" the three economists suggested that such an immense recapitalisation could only come from a government bailout, essentially a European version of the US government's US$700 billion bank bailout called TARP (Troubled Asset Relief Program), but 30 per cent larger than the 2008 original.

Kevin Dowd, professor of finance and economics at Durham University, said in a 3 August Adam Smith Institute report titled "No Stress II: the flaws in the Bank of England's stress testing programme" that the stress tests "are worse than useless because they provide false comfort, suggesting that the UK banking system is safe when it is in fact highly vulnerable."

"As the EU banking system goes into a renewed crisis, the UK banking system is in no fit state to withstand the storm," Professor Dowd explained. "Once contagion spreads from Italy to Germany and then to the UK, we will have a new banking crisis but on a much grander scale than '07-08. The Bank of England is asleep at the wheel again, and we will be back to beleaguered banksters begging for bailouts—and the taxpayer will be ripped off yet again, but bigger this time."

The above developments of the past few days come on the back of the woes of Germany's Too Big To Fail (TBTF) global banking giant Deutsche Bank, long the world's most derivatives-riddled bank (and well connected to Australia's Liberal Party government through former Treasurer Joe Jockey, whose wife was a superstar trader for Deutsche, and current Energy and Environment Minister Josh Frydenberg, a former Deutsche Director of Global Banking). The June International Monetary Fund (IMF) Country Report for Germany declared that "Deutsche Bank appears to [be] the most important net contributor to systemic risks in the global banking system, followed by HSBC and Credit Suisse", and "Moreover, Deutsche Bank appears to be a key source of outward spillovers to all other G-SIBs [global systemically important banks, i.e. TBTF] as measured by bilateral linkages." In other words, Deutsche Bank is the biggest danger and greatest source of derivatives contagion to the global financial system.

Deutsche Bank's share price hit a historic low of €11.20 on 3 August, even below its lowest value in January 2009 during the global financial crisis when it dropped to €13.39. Deutsche Bank's all-time high share price of €103.14 on 14 May 2007 is a distant memory of a fool's paradise. On 8 August, the European stock market index, Stoxx Europe 50, simply removed Deutsche Bank and Credit Suisse from its listings, so that its index level wouldn't be dragged down by the banks' plunging share values.

If Europe triggers another global banking crisis, like 2008 but bigger, it will hit an Australia with a housing bubble twice as big as in 2008; banks with derivatives obligations of $32 trillion, more than double the level of $14 trillion in 2008; already low interest rates that can't be cut much further; and a huge government deficit rather than surplus.

It is therefore more urgent than ever that governments protect their citizens from the fallout of such a crisis by enacting a total Glass-Steagall separation of ordinary commercial banks, which hold savings and business deposits and provide banking services to the real economy, from the speculative investment banks whose activities are the cause of the crisis. Glass-Steagall is now on the official policy platforms of both the Democratic and Republican parties in the USA, it is the policy of the Labour party in the UK, and support is growing for it worldwide. It is just as necessary and urgent for Australia's banking system, to split up the derivatives-addicted Big Four banks and any other banking conglomerates, so that when they collapse under their gambling debts they don't drag the entire economy down with them.

Since the global financial crisis the Citizens Electoral Council has led the fight for Glass-Steagall in Australia, which you can help by joining the CEC's campaign:

Get a copy of the CEC's pamphlet explaining all you need to know about the policy, called *Glass-Steagall Now!*;

Keep up with developments in the weekly *Australian Alert Service*;

Visit, email, write or phone your local MP to demand they act to protect their constituents by fighting for Glass-Steagall in Parliament. Due to the election there are many new MPs and Senators who need guidance from their constituents on political priorities, and there is no greater priority than Glass-Steagall.