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Closing coal? The real victims are Australian energy consumers

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If software billionaire Mike Cannon Brookes is Australia's latest corporate raider, his bid for AGL redefines the whole notion of a corporate raider.

Historically, corporate raiders have sought to profitably reinvigorate under-performing assets, but Mr Cannon Brookes ostensibly seeks to close down the target firm's assets whether or not they are under-performing. Cannon Brookes is the junior partner in the bid which is led by Brookfield, a $250 billion real estate developer and manager with renewable energy comprising about ten per cent of its assets.

AGL has developed from a Sydney gas distributor by branching into electricity distribution and retailing once privatisations made these activities available. It then bought into major electricity generators in New South Wales (Bayswater, Liddell) and Victoria (Loy Yang A) to become Australia's largest energy utility.

Having traded as high as $25 five years ago, AGL's share price plummeted to under $6 per share at the end of last year. The shares have since increased in value as a result of higher electricity prices and the share offer is worth $7.5.

The demise of the AGL share price reflects its positioning within a pincer.

On the one hand, the firm is heavily into coal-based power, which is designed to operate 90 per cent of the time. Unfortunately, as a result of subsidised wind and solar, it is forced to run as an intermittent filler to these erratic power sources. Coal generation's high capital intensity means that impacts harshly on its economics. Compounding this is the wear and tear from an on-off operating regime that must accommodate subsidised wind and solar which has supply priority advantages. These detrimental outcomes for existing coal plants would also plague the economic viability of new coal plants, or for that matter, a nuclear plant.

The other arm of the pincer comes from the Environment Social Governance (ESG) movement which has become dominant in financial markets. It seeks to deny funds and downgrade the quality of coal (and gas) producers' earnings. In addition, ESG has brought higher regulatory costs to coal due to it having infected attitudes of planners and governments as a whole.

The combined effect of these pincers reduces the value of AGL shares making the firm vulnerable to a predator.

Mr Cannon-Brookes argues that renewables are the cheapest source of power generation, but he illogically claims that forced early closures of coal power stations are required to allow them to demonstrate this. Unsurprisingly, as he told The *Australian*, 'This is not my day job.'

But energy and infrastructure investment is the day job of his majority partner Brookfield, which owns Victoria's transmission network as well as distribution and retailing assets. Brookfield would have cast expert eyes on AGL's balance sheet and assessed that early closing of the troubled coal power stations means higher prices for renewables, batteries, and alternative supply-stabilising facilities. They would also welcome the consequent need for more transmission spending due to the concentrated output from huge coal generators being replaced by that of remote and less concentrated renewable energy electricity supply.

Fundamentally, Australian energy policy is being driven by carbon dioxide abatement policies that have been falsely sold as both planet-saving and cost-saving. The upshot is higher electricity and gas prices and a more precarious electricity supply. Meanwhile, even if reductions in greenhouse gases are a pressing concern, it is not taking place as the Third World expands its emissions faster than developed countries force theirs down.

Writing in The *Australian*, Judith Sloan has a point in asking whether the National Energy Market is really suited to the control by zealous bureaucrats and the whims of private sector decision-making based on evangelical thinking by executives as well as making money for the shareholders. But governments cannot blame calculating enterprises like Brookfield or even dreamy environmentalists like Mr Cannon-Brookes from seeking to prosper or gain virtue-signalling benefits by taking advantage of the regulatory regimes they have created.

Right now, governments have two alternatives. They can continue the present attack on hydrocarbon energy and see high prices driven even higher by a need to constantly meddle in the market to neuter some of the effects of such policies. Or they can move to quickly eradicate the subsidies and preferred treatment of renewables to allow the resurrection of the low-cost reliable energy market that prevailed at the dawn of the 21st century.