Bill shock fear in power play

JOHN DAGGE
ENERGY

SCRAPPING the Renewable Energy Target will add $140 to the average household electricity bill over the next decade, according to a new report.

The report by the Clean Energy Council, a renewable energy lobby group, says scrapping the target risks $14.5 billion of investment in solar, wind, bioenergy and hydroelectricity — and more than 18,000 jobs. It says dropping the target — which is under review by the Federal Government — will add $51 to the average household bill by 2020. That figure would rise to $140 by 2023-24.

Electricity bills will go up as more power is generated from gas, the report, to be released today, says. "The Renewable Energy Target is holding electricity prices lower over the long-term by minimising the use of increasingly costly gas for electricity generation," Clean Energy Council chief executive David Green said.

"Recent price rises in Queensland and NSW reinforce estimates that gas will increase dramatically in price this decade, as Australia enters the international gas market."

He said the uptake of wind and solar helped to push down wholesale energy prices by increasing the overall supply.

The report challenges estimates from the electricity industry regarding the future contribution of renewables.

The target, brought in by former prime minister John Howard, rules that renewables must contribute 41,000 gigawatt hours of electricity by 2020.

That amount was meant to reflect 20 per cent of all power generation. However, softer demand for electricity and a greater than expected uptake of solar and energy-efficient appliances will ensure this level is exceeded.

Origin Energy has estimated 27 per cent of electricity will be supplied by renewables by 2020 and argues maintaining the 20 per cent target will delay spending on renewable projects.

The council's report estimates renewables will account for 22.6 per cent of power generation by that time.

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HAWKINS TO HEAD THE STAR

GAMING

THE former chief of Melbourne's Crown casino is taking the helm of its biggest rival, Sydney's The Star.

Echo Entertainment, owner of The Star, announced yesterday it had appointed Greg Hawkins as managing director of the Sydney casino.

Mr Hawkins has spent more than 20 years in the gaming sector in Australia, New Zealand and Asia.

He was Crown chief in Melbourne from 2011 to 2013.

Mr Hawkins was previously chief executive of the Altira casino and president of the City of Dreams casino, both in Macau.

Greg Hawkins, formerly with Crown, has been appointed to rival casino The Star.

He replaces Frederic Luvisutto, who left The Star in January.

In announcing his resignation, Echo said he was leaving "to pursue a new career opportunity overseas".

Mr Luvisutto had been in the role for less than two years. He had succeeded Sid Vaikunta, who was ousted amid sexual harassment allegations.

Echo shares closed 1.8 per cent lower yesterday at $2.81.

Quest catering to corporate market

COMMERCIAL PROPERTY
OLGA GALACHO

JUST when you thought Abbotsford might struggle to increase its high-density accommodation further, the Quest group this week opened the doors on 93 new apartments.

The inner-city suburb is among a small clutch of postcodes to have absorbed the majority of apartments being built on the Melbourne CBD's doorstep in recent years.

But the Quest development stands apart because it is based on a corporate accommodation model.

The units come in studio and one to three-bedroom apartments designed to host travellers in Melbourne to do business or executives based in the city for short periods.

Quest Abbotsford was built in partnership with Salta Properties as part of the developer's $1.5 billion Victoria Gardens Precinct on the edge of Richmond in the City of Yarra.

The apartments have a variety of owners, from self-managed superannuation funds to larger organisations, and in some cases by the Quest parent group.

Quest Abbotsford franchisee Paul Murphy said business is thriving in the City of Yarra with more than 8700 businesses employing 57,000 people.

This has led to demand for corporate accommodation near this activity centre.

Quest Serviced Apartments chairman Paul Constantinou said the project's opening marked the beginning of an exciting pipeline of growth for the company in 2014.

The Abbotsford property is the first of eight Quest sites due to be opened this year.

CHILDCARE ON THE WAY

A LISTED property trust has paid $5.26 million for a Richmond office/warehouse property in Church St about 3.5km from the city, which it intends to develop into a childcare facility.

Previously owned by a private Melbourne investor, the commercial building is on two levels with 1600sq m of vacant space and 37 secure car spaces.

Agents Teska Carson said the property is on a total site of 1800sq m, with 38m of frontage to Church St and 43m to Baker St which is just a block from the bustling Victoria St.

THE SHORT CUT with ROGER MONTGOMERY

Take a wide view to achieve goals

THE relationship between stock prices and the economy can be a difficult thing to get your mind around.

On the face of it, it seems simple enough — growth in the economy ought to translate to market growth for the listed businesses, and therefore into higher profits and higher share prices. Common sense tells us that a good way to push the equity market higher is to have in place policies that facilitate a healthy economy.

To some extent, this is true. However, the relationship is not so simple.

History is full of examples where the stock market and the economy have appeared to head in different directions.

One of the main reasons is that stock market prices are the combination of two things — the profits earned by listed companies, and the earnings multiple the market is willing to ascribe to those profits. Even with profits growing, share prices can decline if the multiple is falling.

Short term, most of the movement in equity market prices is driven by changes to the earnings multiple.

In the wake of the GFC, a nervous market pushed multiples to unusually low levels, and over time a return to more "normal" multiples has driven strong growth in share prices.

Astute readers will have recognised that there is a sustainability problem.

If prices grow but earnings don't, then the inevitable result is expensive shares. That sets the scene for a bout of market nervousness, declining multiples and falling share prices.

Over time, sustainable growth is vital. This is the only kind of growth that can contribute to a better retirement for all Australian investors, and this can only happen to the extent profits are growing.

This is where things become more complicated.

At the start we talked about a healthy economy providing the path to growing corporate earnings. In reality, it probably works the other way around.

The Australian index is dominated by a small number of relatively large businesses.

The problem is not that these have been successful. The problem is that other businesses have not, and this has meant that the Australian market is dominated by companies that are either domestically-focused, or are exporting commodities to which we add no value. Where does the growth come from?

The issue comes into focus when you look at the information technology sector, which makes up less than 1 per cent of the Australian index, compared with almost 20 per cent of the US S&P500 Index. World-leading innovation certainly exists in Australia, but it seems to contribute a small proportion of the value of our listed companies.

Finding effective ways to stimulate innovation and entrepreneurship is an enormous challenge and beyond the scope of this article.

Rather, the point is to highlight to Australian investors that a simple strategy of buying the domestic market index may not be enough to achieve long-term wealth goals.

To achieve these goals you may need to look beyond the largest listed Australian companies, and focus on smaller companies with room to grow in Australia, or international businesses that have the ability to address a global market.

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