Australians suffer as big emitters get a greenhouse gas free pass

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Environment and Energy Minister Josh Frydenberg's tour de force at the National Press Club on Wednesday and his opinion piece on this page yesterday show a man on top of his brief and using it to smite the ALP and the Greens as well as those on his own side promoting direct investment to counter the continued damage being done by renewable energy subsidies.

Renewable subsidies have caused a doubling of wholesale prices by forcing the premature closure of coal generators. Requiring electricity retailers to buy wind and solar energy, soon to be 23 per cent of supply on the way to 40 per cent, gives them a subsidy of $80 per megawatt hour on top of the market price of $85/MWh. That market price was $40/MWh before renewables forced the closure of key power stations such as Victoria's Hazelwood and the Northern in South Australia.

The minister cited data showing that renewable subsidies were costing electricity consumers $60 a year but, on top of that, by raising all wholesale prices, they had increased the burden by another $300 a year. And the burden on businesses is far greater since firms' wholesale component of electricity costs is much higher than that of households.

Frydenberg's message is that we must advance cautiously towards a renewable energy future, the certainty of which he endorses on grounds of increased cost competitiveness of renewables and public and diplomatic pressures to abandon coal.

With respect to the supposed inevitable march to renewables competitiveness, proclaimed but unfulfilled for 35 years, he allows himself a touch of scepticism when he says: "It has always struck me as paradoxical that the first to say renewables are cost competitive are often the loudest to call for another round of subsidies."

The bedrock of future policy is the 2015 Paris Agreement, under which nations agreed to take action on their greenhouse gas emissions, a large share of which come from electricity generation. In Australia's case this entails a cut in emissions by 26 per cent by 2030.

However, the Paris Agreement places no obligations on developing countries, responsible for 55 per cent of global greenhouse gas emissions.

Moreover, US President Donald Trump has disavowed the agreement and is promoting a US fossil fuel energy resurgence. The US is another 15 per cent of global emissions, meaning disciplines are on less than 30 per cent of the total. If Trump's policies reinvigorate the US, others will adopt his low-cost energy approach.

Two other major emitters, Canada and Japan, showed no compunction about reneging on the Kyoto Agreement, the forerunner of Paris, once the going got tough. Australia achieved its Kyoto target not by curtailing fossil fuel use but by putting a stop to land clearance (without compensating farmers).

The government's proposed way forward is the national energy guarantee, which it says is "not a new tax, subsidy or emission trading scheme". While the details of the NEG have not yet been devised, it has two components.

The first is a mechanism by which the greenhouse gas emissions for electricity will be specified. Suppliers will be allocated targets. Unless renewable energy suddenly becomes cost-competitive, this will force the market to provide growing payments for renewable energy to foster its increased supply. This component is, in short, a cost-enhancing subsidy from coal and gas generators to renewable generators — an emissions trading scheme.

Superimposed on this is another mechanism that will force the non-dispatchable electricity sources (wind and solar) to have back-up supply. Frydenberg has previously estimated the cost of this at $16/MWh. For the most part, this provision is unnecessary since the risk management departments of retailers already insist their wholesale purchasers buy such insurance against non-delivery by wind and solar.

The issue of supply security and price is uppermost in the battleground over the proposed closure of AGL’s Liddell power station in NSW’s Hunter Valley and the calls from some Coalition MPs for direct investment in new coal-fired generators.

The government is resisting such calls but is leaning heavily on AGL to keep Liddell open. The firm’s claims that its alternative investments will be superior just do not pass the credibility test. AGL has said it needs policy certainty.

Prominent ALP spokesman Nicholas Reece made it clear on Wednesday night that a Shorten government would not permit Liddell’s closure before 2025.

The long-term answer to restoring to Australia the world’s lowest cost electricity price is to abandon all subsidies, ensure profits of long-lived assets are not undermined by future subsidies to their competitors and to prevent demonstrators sabotaging new developments. But with a 20-year history of government meddling in the electricity industry, how do we get there from here?

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