End the renewables rorts now for cheap power

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The government’s abandonment of the expanded renewable energy target that the Finkel report recommended represents a careful compromise.

The Prime Minister remains a rusted on fan of renewable energy which he considers marks the future. Malcolm Turnbull has put himself through multitudes of hoops to salvage this prospect – including the absurd plan to
implement Snowy II and pump water uphill to allow it to supply more profitable time slots.

Like all renewable energy apostles, the Prime Minister is bewitched by confident forecasts that sometime in the near future advances in technology will make renewables cheaper than fossil fuels. Such forecasts have been promoted by idealists and carpetbaggers since the 1980s but the fact is that renewable energy still costs $115 per MWh and, as recent work by the Minerals Council showed; a new Australian coal power station would profitably operate at under $50 per MWh.

Tony Abbott represents the opposite pole. Now freed up from having to listen to wide eyed advice from the bureaucracy and self-serving forecasts from energy businesses which prefer the certainty of government subsidies to the risks of entrepreneurial investment, he has recognised the disaster he presided over. In several addresses, culminating with that in London, he demonstrated that the renewable energy program is busting the Australian economy and has been the key factor in domestic households’ near 50 per cent increase in electricity prices.

The last ditch supporters of the renewable program retained their faith and some found sustenance in the recently released ACCC report which assigned only 16 per cent of the recent price increases to green schemes. What such interpretations overlooked was the fact that the green schemes had also forced out low cost coal generators. This means they were directly and indirectly responsible for at least 60 per cent of the increases and, because of the dispersed nature of renewable supplies, would also have contributed to the 40 per cent of the increase attributable to network prices.

Even Malcolm Turnbull would have had to recognise that things were not going to plan when the wholesale electricity price jumped from under $40
per MWh in 2015 to $90 at present and with forward prices showing no respite. And the South Australia blackout experience together with AEMO chief Audrey Zibelman’s desperate search for band aids to shore up reliability showed a very real prospect of an increasingly unreliable system as a result of renewable requirements. Ms Zibelman’s interventions may paper over some cracks but also undermine market responses. The appointment of Drew Clarke as Chairman of AEMO is a considered step to rein in her activism.

Josh Frydenberg – probably the smartest politician in the political “swamp” – could clearly see the disaster emerging. In June responding to Finkel, he adverted to the costs imposed by renewables by ensuring the Party room knew that they require a ‘firming’ insurance premium (though he put this at a wholly inadequate $16 per MWh). Frydenberg knows that the existing program whereby we have to reach 23.5 per cent renewables by 2020 (up from 16 per cent today) means the closure of at least one other major coal generator and the associated permanent price boost and reduction in reliability.

Insisting that AGL keeps its Liddell station open is but one strategy. This is now supplemented by requiring that the retailers ensure their supply portfolios contain a given proportion of reliable coal, gas or hydro. This solidifies a two-price system that was already emerging (the less reliable renewables were already trading at a discount).

Frydenberg hopes that a gradual unwinding of the renewable subsidies will save the situation. But the legacy continues for another 13 years even if a Shorten or an unchastened Turnbull administration does not reinvigorate the subsidy program.

The demonisation of coal almost certainly will require the government to guarantee a new coal generator. But even with this, the price increase from
the renewable subsidy remains locked into the system making permanent the transposition of Australia from the cheapest to among the dearest sources of electricity supply. This has radical and adverse implications to the nation’s industry structure and wealth.

The unwinding of the renewable con-job is to be welcomed. But it can at best stabilise the damage that has been created. The only way forward is to totally abolish all subsidies with immediate effect, including those that the recipients will claim have been guaranteed. We are spending some $4-5 billion a year in a vain attempt to accelerate a future based on renewable energy and as a result have lost the comparative advantage of cheap power that has been the backbone of the economy.

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