

Deregulate energy market and go back to coal

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The catastrophic outcome of government energy market interventions is palpably clear. As the latest new regulatory body, the Energy Security Board, diplomatically puts it: “Fifteen years of climate policy instability ... (have) left our energy system vulnerable to escalating prices while being both less reliable and secure.”

Australia has seen electricity prices double since 2015 and the once reliable supply is now suspect. From enjoying the world’s lowest cost electricity a decade ago, Australia now has among the most expensive.

The main cause has been subsidies and regulatory favours to renewable energy — chiefly wind — that have forced the closure of reliable coal-fired generators, particularly Northern in South Australia and Hazelwood in Victoria. Without these subsidies, costing about \$5 billion a year, there would be no wind or solar. Not only are customers and taxpayers slugged with the subsidy costs but the outcome also has been to raise prices and reduce reliability.

A new Australian coal plant would produce electricity at about \$50 a megawatt hour. A new wind farm can produce electricity, at best, at \$110/MWh and its present subsidy is about \$85/MWh. Solar is about twice the cost of wind

Fundamentally, the cost disadvantage of wind and solar stems from their low “energy density”. To get the equivalent energy from a standard 500MW coal generation unit requires 300 wind generators or 900,000 solar panels, and storage or back-up capacity is required to offset the inherent unreliability of energy sources dependent on the vagaries of the weather. Energy Minister Josh Frydenberg put the cost of this at \$16/MWh, an optimistic estimate even with the government’s 23.5 per cent renewable target.

Wind farm entrepreneur Simon Holmes a Court recently argued on this page that the world is abandoning coal for electricity generation. Australia’s booming coal exports testify to the ludicrous nature of such statements. In fact, according to Greenpeace’s data, China has 300,000MW of new coal plant under way, increasing its capacity by a third; Japan has 20,000MW, which also would raise capacity by a third; while India has plans for an additional 148,000MW, adding 65 per cent to its capacity. Australian coal generating capacity is about 25,000MW.

The US has no new coal generators planned. This is partly a legacy of Barack Obama, who declared his policies would bankrupt any new coal generators, and partly because of the US boom in gas and oil production. Due to fracking, a technology largely banned in Australia, the US has gas at less than half the Australian price, making it cheaper than coal for new electricity generation.

Holmes a Court was correct in drawing attention to the costly failures of “carbon capture and storage”, the global propaganda arm for which is largely financed by the Australian

government, and of high-energy, low-emissions coal power stations. These technologies reduce carbon dioxide emissions but involve add-on costs.

The Minerals Council of Australia, anxious to retain the support of BHP, has promoted low-emission technologies. For internal reasons, BHP supports renewables and opposes coal generation in Australia notwithstanding its dependence on international coal sales and cheap energy generally. The firm's promotion of renewable energy confronted the reality of this with high fuel costs for its Olympic Dam mine in wind-dependent South Australia. It also took a \$137 million hit from the 2016 wind-induced collapse of SA's power system.

Many firms support renewable policies out of self-interest. Revenue from subsidies is itself valuable and, in addition, coal generators, as Origin Energy's half-year results last week showed, are earning huge profits from the doubled wholesale price. Others are conscripted to support renewables for PR reasons, as part of what German political scientist Elisabeth Noelle-Neumann has called a "spiral of silence", where a loud and confident group is perceived to be majority opinion, leading others to acquiesce in much of its message.

The ESB has been tasked with creating an electricity market blueprint that marries lower carbon dioxide emissions with lower costs and greater reliability. This is an impossible task and would require massive new regulatory interventions.

The ESB's proposals envisage creating a market combining emissions and energy in which every retailer and generator would need to participate. They would add new dimensions of complexity to electricity supply, bringing a further proliferation of administrative resources within the bureaucracy and the industry.

Envisaging such further controls as bringing improved efficiency represents a triumph of hope over experience. We can restore our latent competitiveness in cheap energy only by abandoning all the intrusions and distortions that are in place. Donald Trump has achieved success from such an approach and we may have to await full recognition of this before our politicians adopt similar deregulatory policies.

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