Subsidies, bureaucrats, blackouts and bills: inside our electricity disaster

Alan Moran

26 August 2019

The Australian Energy Market Operator is one of the half dozen different government institutions responsible for planning and managing the electricity industry. Like its sister agencies, AEMO accepts no responsibility for the transformation of an industry that over the past five years has gone from supplying the world’s cheapest, most reliable power to one of the dearest and least reliable.

There is daily evidence of the damage from climate change inspired, renewable energy-induced high electricity prices. The latest confirmation comes from Bluescope, which is opting for a $1 billion investment in the US, rather than Australia. The cause of this disaster has been the regulations subsidising high cost intermittent renewable energy.

In planning for the future AEMO claims to have abandoned a “price-based mechanism to achieve decarbonsation”. But this is pure dissimulation. AEMO is now promoting a volume-based carbon budget – instead of setting the tax and allowing this to bring about its carbon target, AEMO is setting the target directly, which will see a de facto tax emerge.
Another regulatory agency, the Energy Security Board in its 2025 plan, has the same approach, which it calls the Renewable Integration Study.

Yet another government agency, Infrastructure Australia, earlier this month published its own catechism for the future. This was also founded on policies to combat and adapt to climate change. IA costs taxpayers $12 million a year to provide a voluminous, gushing fantasy report every few years that tells us we need to decarbonise. And when it states “Policy uncertainty and poor coordination has affected investment in the energy sector” this is not an apology for regulatory damage but rather it means we have not been compelled quickly enough to make greater use of renewable energy.

IA formerly came under the government department headed by Treasury Secretary Steven Kennedy. Dr Kennedy, in addition to sporting an oxymoronic title of former economic adviser to Kevin Rudd, was responsible for the 2008 Garnaut Report, which recommended a carbon tax that would now be $40 per tonne. With no mitigation, the Garnaut report thought there was at least an 85 per cent chance of the Greenland ice sheet melting (it is the same today as in 2000) and that 48 per cent of species would become extinct. Kennedy is representative of a culture within the public service that is mesmerised by the spectre of runaway global warming and Treasury plays a key role in energy policy formulation.

Although there is no evidence of warming trending above its level prior to global industrialisation, with few exceptions, the energy regulatory establishment is wedded to alarmist projections. Accordingly, most regulators see their job as being to decarbonise the economy, while restraining vote-garnering political adventurism. Their favoured approach is a tax or tradeable right to emit.
Married to this, they also tend to be technological optimists. Most see wind and solar as becoming cheaper than coal and, having learned nothing from the failure of two decades of subsidies designed to bridge that “inevitability”, devise new acronyms for a carbon tax by subterfuge. Some mistakenly consider that Australian’s sunlight offers us a comparative advantage, failing to recognise that solar radiance along the eastern seaboard is much the same as elsewhere in the world. Others put apples in the basket of a near costless carbon capture and storage solution. More recently, there has been a resurrection of hydrogen as a Holy Grail fuel source that would give us unlimited energy by deconstructing water. That was an idea which was (probably rightly) ridiculed a generation ago when it was fostered by the quirky Queensland Premier, Joh Bjelke Petersen.

Coal, in spite of the policies directed against it, remains responsible for three-quarters of Australia’s electricity, the basis of system reliability and the lowest cost supply source. Even so, Australia’s senior-level regulators and all energy ministers, with the notable exception of the Commonwealth’s Angus Taylor, have adopted a policy of hostility to coal and optimism about replacement technologies. Penalising coal involves billions of wasted dollars a year in subsidies, and has brought a doubling of prices and loss of reliability.

This regulatory establishment’s position was reinvigorated by the 2015 Paris Agreement, even though the three largest emitters of carbon dioxide, the US, China and India, have either reneged on the agreement or were never bound by it.
Politicians and senior bureaucrats shrug off the adverse effects of their policies, sometimes claiming the problems are due to “ageing coal plants”, and seek patchwork solutions to ease anxieties about whether the system might collapse.

But the damaging outcomes of current policies will continue. The only solution is to cease granting new subsidies and to remove those subsidies already granted.

*Alan Moran is with Regulation Economics. His latest book is* Climate Change: Treaties and Policies in the Trump Era.*