Green subsidies have sapped nation’s energy for too long
ALAN MORAN. JUNE 20, 2019

This month Energy and Emissions Reduction Minister Angus Taylor fleshed out the federal government’s energy policy in ways that brought howls of outrage from the subsidy-seeking renewable energy lobby. Stripping aside the rhetoric, his address had three main themes.

First, the government has subsidies in place for low-emission energy and does not intend to expand these with additional renewable energy subsidies. There will be no expansion of the existing commitments to subsidising large-scale solar and wind facilities — commitments likely to be fully acquitted by 2021 (though the existing subsidies will continue for another decade).

This has followed relentless pressure to expand the subsidies, but it is only a start. Unfortunately, no commitment was made to terminate the subsidies for small-scale rooftop facilities, even though the Australian Competition & Consumer Commission had recommended this course.

Nor was there any commitment to wind back the cripplingly expensive direct subsidies from the budget, including those through the Clean Energy Finance Corporation “green bank”.

Indeed, this week Victorian Energy, Environment and Climate Change Minister Lily D’Ambrosio triumphantly opened Australia’s “largest integrated battery and solar generator” at Kerang, a facility financed by direct government subsidies and soft loans from the CEFC.

The second strand was to reaffirm the government’s recognition that subsidies to high-cost, low-reliability wind and solar energy had undermined Australia’s energy affordability and the economy at large.

Taylor reiterated the need to remedy this by giving investors assurances that government policy would not repeat the mistakes of the past — that new investments would not be prejudiced by subsidies to their competitors or new impositions on fossil fuel generators. Before the election the minister had identified 12 possible new reliable energy ventures. Only one of these was a coal-fired plant, but better alternatives such as the Queensland Collinsville proposal are now emerging.

Third, he confirmed that the government did not intend to add to its Paris commitments by adopting the ALP-Greens proposals of even greater reductions to emissions levels than have been already agreed. Indeed, Taylor foreshadowed using Australia’s vast liquefied natural gas exports (which arguably displace higher
emissions from coal) as a means of claiming offsets to domestic emissions should this be necessary.

To reinforce reliability, Taylor is intent on requiring electricity retailers to firm up their contracts. But this is unnecessary, as retailers are fully cognisant of wind’s chronic unreliability and understand that a 100 megawatt shortage for five hours could easily cost $5 million, enough to push small retailers towards bankruptcy and to focus the minds even of the AGLs of this world.

His immediate goal is to get the wholesale price back to $70 a megawatt hour from its present $100 (the wholesale price was less than $40 a megawatt hour in 2015, before the renewable subsidies that forced the closure of the Hazelwood and Northern coal-fired power stations). In the next couple of years $70 a megawatt hour should not be difficult — forward prices are tracking towards this.

One way a more sustained $70 electricity price could be achieved is if the aluminium smelters, which consume 15 per cent of electricity, were to close down. Smelters at Kurri Kurri and Port Henry have already gone and the giant Tomago, Boyne Island and Portland smelters are all in respite.

However, the closure of these world-class manufacturing facilities would signal deindustrialisation. Taylor is determined to avoid this but, though generators can be leaned on to accommodate the smelters in the short term, across the longer period an energy price close to $50 a megawatt hour is necessary.

Achieving a future $50 a megawatt hour will prove difficult because of the amount of subsidised wind and solar already in the system. Eradicating this overhang will not be easy.

The renewable programs started two decades ago in what John Howard has since described as his biggest policy mistake. The schemes were ramped up by the Rudd-Gillard governments and Tony Abbott was able to make only minor incisions. Malcolm Turnbull and the ALP, through the national energy guarantee, sought to expand the subsidies further and were cheered on by wind and solar developers despite their effusive claims such measures were no longer necessary.

Last month’s election was billed as “the climate change election” and the government can claim a mandate to repair the electricity supply industry.

Hopefully, restoring it to the global pinnacle it once occupied in terms of low costs and reliability will be accomplished in much less than the 20 years it took to undermine it.