

Queensland shows the insanity of renewable targets

By Judith Sloan, The Australian, 17 January 2017

Everyone remembers the slogan: Queensland — beautiful one day, perfect the next. I have to inform you there has been an update: Queensland — beautiful one day, insane the next.

The idea that the state could achieve a target of 50 per cent of electricity generated by renewable energy by 2030 is bizarre, unachievable and mischievous — in a word, it is insane. And it is not just because such a target would drive up electricity prices for households and businesses to the high levels of South Australia — probably higher. It also would destroy the value of most of the electricity assets held by the Queensland government. Talk about shooting yourself in the foot.

Given Queensland's extreme level of government debt, there is no doubt that, in due course, most of the government-owned corporations will be sold, particularly if the cost of servicing the debt were to escalate. The tragedy is that it is likely the value of most of these assets will have fallen through the floor by then.

In the meantime, the flow of dividends that the government is relying on to create the appearance of fiscal rectitude will dry up, even if the present unconventional directive of ordering a payout ratio of 100 per cent of profits of the government-owned corporations continues.

An important question is: why would the Palaszczuk government opt for such an economically harmful and foolish policy? We should not forget that Queensland has the lowest percentage of electricity generated by renewable energy — at just more than 4 per cent.

So the policy involves an increase of 46 percentage points in the penetration of renewable energy as a source of electricity generation in the space of 13 years. Pull the other one.

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To provide cover for this madcap policy, the Queensland government appointed a “renewable energy expert panel” to provide a veneer of credibility to the feasibility of the target.

With carefully chosen panel members, the draft report — unsurprisingly — concluded that there were no problems with reaching the target and that electricity costs to households and businesses in Queensland would probably stay steady. Again, pull the other one, but I am running out of other ones.

We should just take a look at the figures. There will need to be between 4000 megawatts to 5500MW of new large-scale renewable energy capacity between 2020 and 2030, something that has not even been achieved for Australia as a whole across the same period. The consensus view is that 1500MW of additional renewable energy a year is the top of the range for Australia and Queensland is only 15 per cent odd of that total.

And don't you just love the prediction of the panel that electricity prices will remain steady for households and business in Queensland as a result of the government's bold, go-it-alone

policy? The background to this, as noted by the Queensland Productivity Commission, is that “since 2007, Australian residential retail electricity prices have increased faster than any other OECD country and Queensland prices have increased faster than any other state or territory”.

Mind you, it is clear why the Palaszczuk government didn’t simply ask the Queensland Productivity Commission to analyse the feasibility of the 50 per cent state renewable energy target. That would be because it wouldn’t be seen as “reliable”, having made the wholly rational suggestion last year that the state government withdraw the generous and unjustified subsidies to households with solar panels on their roofs.

Premier Annastacia Palaszczuk was not having a bar of that idea. How could she continue to conflate small-scale solar panels with large-scale renewable energy, thereby buttressing the support of the public (well, the better-heeled part of the public that can afford solar panels) for anything called renewable energy? If X is good, 2X must be better and 12X must be a blast. Continuing to subsidise households with solar panels is part of the political game, hang other electricity users.

So what does that “independent” panel conclude about the impact of the 50 per cent renewables energy target on electricity pricing? The answer is “broadly cost neutral to electricity consumers where the cost of funding the policy action is recovered through electricity market mechanisms”. (This is code for: we could always skin taxpayers or ask Canberra to chip in.)

But here’s the rub: “This occurs as a result of increased renewable generation placing downward pressure on wholesale electricity prices, which is projected in the modelling to offset the payments to renewables.”

Mind you, the point is added that “the pricing outcome is not guaranteed and could differ, for example, if existing generation capacity is withdrawn from the market, especially coal-fired generation”.

Think about this. What the panel is saying is: if existing generators, which are owned by the government in Queensland, are driven out of the market, which is likely because of the renewables energy target — see the South Australian and Victorian cases as live examples — then prices will rise. And the capital value of these withdrawn government-owned generators will be close to zero, having probably experienced years of underinvestment in maintenance.

This leaves the question: why would the Queensland government decide on such a dimwitted, self-defeating and economically damaging policy position?

In keeping with the rule of following the money, it is clear that the lobbying efforts of the clean energy rent-seekers have been directed at the Queensland government, in particular.

After all, the large energy providers generally have a foot in both camps — conventional electricity generation plus renewable energy assets.

But they don’t stand to lose anything in Queensland by virtue of the astronomical state renewable energy target because the conventional electricity generation assets are all owned by the government. If these generators are driven out of business, it’s a big plus for them, not a negative.

Silly estimates of the gains in employment and billions of dollars of investment, mainly in the regions, associated with renewable energy make gormless politicians simply salivate. The sad thing is that it will be lose-lose for Queenslanders down the track.

The challenge for federal Energy Minister Josh Frydenberg is to convince state governments to junk their vacuous, go-it-alone renewable energy targets that will lead to even higher electricity prices and further threaten the reliability of the grid.