Australia's electricity is far too expensive and unreliable

By Nick Cater, The Australian, 6 June 2017

There's an app for everything these days, even one that tracks in real time the startling cost of Australia's ludicrous energy policy.

We are indebted to PocketNEM for informing us that the spot price of electricity on the National Energy Market shot above $150 a megawatt hour in the eastern states late on Sunday afternoon, hitting $365 in the windmill-powered dystopia known as South Australia. During a largely overcast and windless winter weekend, SA and Victoria sucked up megawatt after megawatt of coal-generated electricity from NSW and Queensland, stretching the interconnectors to their limits.

To whom will the cost of these expensive buy-ins be charged? To the customer of course — you, me and the business we rely on to provide jobs, goods and services.

When the dust settles, the 33,000 gigawatt-hour renewable energy target will prove to be the costliest legacy of the Rudd and Gillard governments. Sure, there are plenty of other multi-billion-dollar blunders to choose from — the cost blowout to the National Disability Insurance Scheme, for example — policies that, like the RET, were implemented with noble intent but vacant attention to detail.

Yet on the scale of bureaucratically orchestrated disasters they are dwarfed by the RET, a Soviet-scale exercise in market intervention that is unravelling before our eyes, presenting Malcolm Turnbull's government with a diabolical policy challenge that cannot be deferred.

How quickly the world has changed. Barely nine months before Turnbull became Prime Minister the Australian Energy Market Commission, which is supposed to know about these things, predicted that scrapping the carbon tax, falling electricity demand and increased capacity would cause retail electricity prices to fall.

The AEMC's latest forecast presents a very different picture. Household electricity bills will rise acutely, particularly in South Australia and Victoria. The closure of SA's brown-coal-fired Northern power station 13 months ago, followed by the closure of Victoria's Hazelwood power station this year, means that for the first time in at least a half-century there is a shortage of active generation capacity.

Last December, the AEMC calculated that the closures would increase the cost of wholesale energy by 55 per cent in Victoria and Tasmania and 41 per cent in SA by the next federal election.

The Turnbull government will get only one shot at fixing this mess before rising power prices start to bite, and it will steady its aim this Friday with the release of Alan Finkel's review of the National Electricity Market.

It is a chance to rescue energy policy from the sectional interests that want the renewable energy gravy train to keep running, and to frame it to serve the national interest. The ideologues, aided and abetted by the self-interested renewable energy lobby, will try to make this a debate about "sustainability" in the hope of deflecting attention from our demonstrably unsustainable energy policy. We must ignore their soft-headed nonsense and focus on securing what we really need: a reliable supply of affordable energy within our carbon emission targets.

The review is unlikely to recommend, nor is the government willing to countenance, the abolition of the RET, attractive as that may seem to energy market rationalists.

It should, however, help us recognise that putting most of the burden on the electricity grid to deliver Australia's promised carbon emissions reduction was a ghastly mistake. It has neither assisted the reduction of carbon emissions nor encouraged the development of new technology.

Even Ross Garnaut, the Rudd government's professor of choice, called for it to be phased out. The RET "does not necessarily encourage the lowest cost means of reducing emissions", he wrote in 2011, "nor does it encourage innovation: it favours the lowest cost established technologies that are eligible within the scheme",

In fact, it can cost up to $100 a tonne to abate carbon emissions through large-scale wind and solar, and up to double that amount using small-scale domestic solar panels.

Meanwhile another arm of government, the Emissions Reduction Fund, can do the same job for less than $12 a tonne. Allowing thermal generators to offset emissions by purchasing credits from the ERF instead of renewable energy certificates at eight or nine times the price may give them a fighting chance.

The review also presents the opportunity to end the sacred treatment of wind and solar and to share subsidies, if subsidies there must be, with low-emission thermal energy production such as gas and clean coal. It would not fix the gas shortage but at least it would give the owners of mothballed gas plants a little more confidence of a return on investment.

If common sense is allowed to intrude, we will no longer pay subsidies of about $85 a megawatt hour for the fitful supply of unstable energy using subprime technology of windmills.

Renewable energy suppliers have little incentive to improve the reliability of their product since it is the public, not they, who are forced to pick up the bill for buying in thermal power at the spot price when the blades stop tuning.

The energy market as currently constructed is a classic example of moral hazard where one party decides how much risk to take, while another bears the cost when things go wrong. If renewable energy companies were made to shoulder all, or at least part, of the cost of their failure to provide electricity at 50 hertz for 24 hours a day, they might invest more in the development of storage.

What could go wrong? After all, Alan Kohler assured us in his column in *The Weekend Australian* that wind and solar are at the point of becoming cheaper than coal and gas, and batteries are just around the corner. We are about to see a flood of renewable investment that will spell the end of coal.

A clear-headed readjustment of the RET will allow us to test that somewhat brave assumption. Oh, and help us keep the lights on.

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