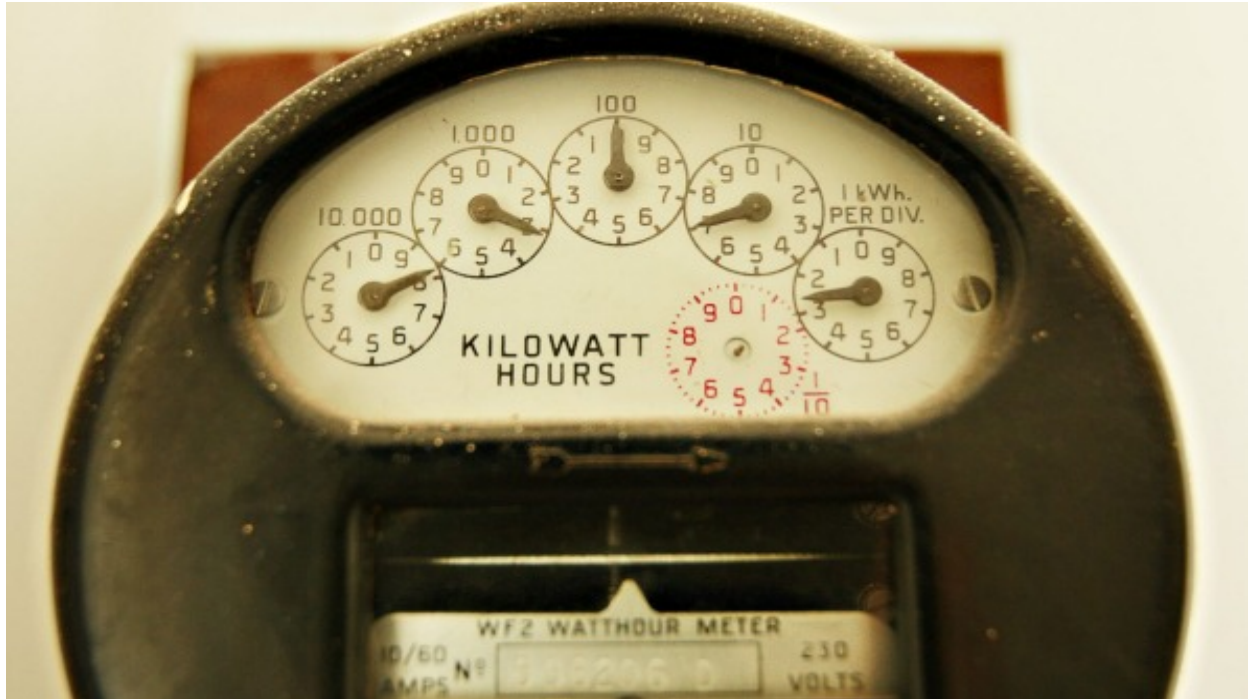


## Renewables an expensive rejection of cheap fuel and competitive advantage



by **Alan Moran**

Exotic renewable energy from wind and solar costs three times as much as electricity from coal and gas generation plant. Renewables are subsidised by households and firms being required to include growing proportions of renewable energy in their electricity supply.

The Renewable Energy Target (RET) in place requires 23 per cent of electricity to come from wind and solar by 2020. The renewable lobby estimates this is costing \$40 billion for wind and large-scale solar installations. Unfortunately that expenditure is not beneficial investment. Rather, it is money spent on incendiaries to destroy existing productive fossil-fuel plant. And it is being unwittingly provided by electricity customers whose reward is higher prices due to subsidised renewable plant displacing low-cost coal and gas generators.

Over the past 20 years the renewable energy requirements' noose around the Australian economy has been progressively tightened. Australia, with its low-cost coal and gas supplies, was once one of the world's cheapest electricity markets but, due to renewable regulations, is now among the most expensive.

Not only are wind and solar high cost but a renewables-heavy network is unreliable, as is illustrated by the recent near breakdown of supply in South Australia. A cold snap, windless days and work on the interconnector with Victoria – coupled with subsidised wind forcing the closure of the state's coal power stations – left South Australia reliant on undependable wind generators. Prices peaked at \$14,000 per megawatt hour compared with the norm of under \$100. Though the crisis has now abated, this is only because South Australia has become even more dependent on supplies from Victoria's highly reliable, low-cost coal generators.

### Same path

But Victoria has embarked upon the same path as South Australia. It plans to have 20 per cent of its electricity from exotic renewables (up from 12 per cent at present) with an eventual goal of 50 per

cent. This involves abandoning the coal supplies that have allowed low household prices and been the backbone of the state's industry.

Richard Dennis earlier this week claimed that South Australian electricity prices are now 40 per cent lower than in 2007. That's a dishonest cherry pick of an outlier year. South Australian electricity prices in 2016 are actually 30 per cent above their long-term average; compared with last year, electricity future prices for 2017 are up 50 per cent.

The beneficiaries of the renewable subsidies are now calling for a double down of the regulatory policies. Consumers rather than those suppliers who stand to gain have already had to pay for more transmission capacity.

We have also seen calls for expedited spending on battery storage technology by those who assure us that this will mend one deformed arm of renewable energy – its unreliability – leaving only its cost penalty. Even that prospect, like so many other mirages associated with renewable energy, is said to be years in the future.

AGL, a firm never shy of avoiding subsidies, is calling for a different form of market, one that will provide it a more certain reward for having its fossil fuel generators available on standby. Such a "capacity market" is presently in place in Western Australia where it has proven to be exorbitantly costly. To his credit Energy and Environment Minister Josh Frydenberg has rejected the proposal. AGL has, however, had more success in recruiting \$2-\$3 billion of public money to finance a fund for its renewable ventures.

## **Unlikely saviour**

In escaping the self harm of renewable energy regulations, Australia's salvation may come from an unlikely direction. The current basis of climate change policy is the UN agreement established in Paris in December last year. Under this Australia pledged to reduce its carbon dioxide emissions by 26-28 per cent. The renewable energy policy is the cornerstone of this.

But the policy's architects were the EU and the Obama administration. China, the largest emitter of carbon dioxide, and India, the fourth largest, are taking no meaningful abatement measures. As President, Donald Trump would dump the US participation in the Paris agreement. That would leave as its sole promoter the economically moribund EU, responsible for only one tenth of the world's emissions. Moreover, Britain's departure from the EU may presage a European rethink.

Without developing-country participation the Paris accord was always an empty gesture to decarbonising the world economy. Future developments would make any Australian obligations even more purposeless. There are many negatives associated with both candidates for the US presidency. But a Republican victory in November would offer one silver lining for Australia in the provision of an escape hatch for a deleterious policy seemingly set in stone.

*Alan Moran is with Regulation Economics  
AFR Contributor*