

Energy policy: Turnbull government must rediscover market forces

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Malcolm Turnbull has turned to market intervention on gas in search of an early win on energy policy but the federal government will need to rediscover market forces to find an enduring solution.

Rewriting the rules on renewable energy subsidies is the first step. It is now obvious that existing measures, which pay for renewable energy to wreck system reliability and raise prices, are unsustainable. The government must turn the discussion away from what the power sector alone can do to meet Australia's targets. It must make maximum emissions reductions at minimum cost the core objective.

Two recent reports show Australia can easily meet its 2030 Paris target with measures that enhance business profitability and hold genuine co-benefits for the land sector, although there are difficult politics around land clearances.

The pay-off is to build space to take pressure off the power sector, which in turn will reduce power prices and maintain employment.

Technological advances hold real promise of measurable carbon dioxide emissions savings in fossil fuels. But the renewables sector has yet to be made accountable on its claims that CO2 emissions savings are real, not just modelled.

A market system based on buying carbon permits to offset emissions offers a demonstrably more efficient, cost-effective way forward. Discussions are well advanced on how such a system could look. It melds Chief Scientist Alan Finkel's recommendations and the federal government's emissions reductions target inquiry to cement a durable solution. In that way, Finkel's CO2 emissions target replaces the large-scale renewable energy target.

Rather than buying renewable energy certificates from low-emissions generators at high prices, power retailers would be able to buy permits elsewhere, including overseas, where carbon permits are trading as low as \$7, or through an extension of the direct action reverse auctions, which achieve emissions savings for about \$12 per tonne. This compares with the \$90-plus default price on RET renewable energy certificates.

Under Finkel's plan, efficient gas and new-generation coal plants could qualify for permits based on their lower emissions profile relative to coal technology. The challenge is to ensure lower-emissions baseload plants have adequate market access, requiring a level playing field on subsidies.

Such a policy would address the big picture of energy security, affordability and promised greenhouse gas emissions savings in a truly agnostic, ideology-free way.