Energy is fast going down telecommunications route

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Things used to go from bad to worse. Now they go from dreadful to execrable.

Energy policy is Exhibit A in that respect. A death wish seems to be at work, as we shred low-cost options, pile distortion on distortion and reward rent-seeking at the expense of efficient investment.

The Finkel report was supposed to break that cycle. Its central proposal, the clean energy target — which would replace the present renewal energy target with a scheme better targeted to the emissions intensity of alternative forms of generation — may have its merits, at least compared with the present shemozzle.

But the report is flawed by cavalier conclusions and unacceptably poor modelling.

Moreover, the errors in the report are hardly random: they systematically overstate the - advantages of renewables and understate the continuing importance of coal, Australia's most abundant energy source.

Nothing better illustrates the pattern than the report's assertion that "delivering a secure power system with a high penetration (of renewables) is technically and economically feasible". That assertion, which the report says is based on "a number of studies", is crucial to its recommendations.

However, it is inconsistent with the weight of evidence.

For example, in a recent survey published by the Renewable and Sustainable Energy Reviews journal, BP Heard and his co-authors tested 24 studies that purport to show that a 100 per cent renewable target is feasible, only to find that all those studies breached - elementary network reliability, security and stability constraints.

And it isn't merely the published literature that casts doubt on the report's claim: its own modelling does too.

As Brian Fisher, the highly respected former head of the Australian Bureau of Agricultural and Resource Economics, has pointed out, the scenarios presented in that modelling would not meet Australian security and reliability standards. Ensuring the lights stayed on in the high renewables scenarios would require extra investments the report ignores, thus understating the costs renewables impose.

The problems are every bit as severe with the report's modelling of coal-fired generation but here the bias runs the other way.

The modelling focuses on the cost of financing coal-based power plants, relative to that of financing investment in renewables. How its estimates are derived is not explained, nor are the estimates compared with standard analytical benchmarks.

What is clear, however, is that the assumed financing costs for coal-based plants are so high as to be prohibitive.

They are, for example, well above recent estimates by France's auditor-general of the - financing costs of new nuclear plant, which surely involves greater risks than coal, and are almost double those for the large US coal-based generators. Moreover, the report's estimates are significantly higher than those the same firm of consultants used in its work for Treasury's modelling of Labor's carbon tax, despite the fact that interest rates have collapsed since that work was undertaken.

Other modelling choices then accentuate the biases that creates. While the modelling is very poorly documented, its estimates of renewables costs are far below those used by the Australian Energy Market Operator, and even those low estimates are assumed to fall steeply as the stock of renewables rises. That assumption was also made in Treasury's carbon tax modelling and proved wildly optimistic. But placing hope above experience, the report repeats the error.

At the same time, the report seems to assume, in stark contrast to reality, that the technology of coal-fired generation is at a standstill, so compounding the flaws in its assessment.

The unsurprising result is that the modelling produces estimates that verge on being incomprehensible.

In particular, when the review's preferred option is implemented, costs rise but prices fall. The most likely explanation is that the subsidies built into the clean energy target distort generators' bidding behaviour, undermining the market's long-run viability; but the report does not even attempt to explain those outcomes or assess their implications.

In all those ways, the report undermines its credibility. There is, however, one finding the report gets right: it is ill-considered political interventions that have caused Australia's energy crisis.

That makes it all the more unfortunate that the government, as part of the energy package it released last week, announced that it has unilaterally decided to abolish merits review of decisions by the energy regulator.

The government's announcement is extraordinary: by claiming that the courts, when they overturned the regulator, repeatedly "ruled against consumers", it is accusing Federal Court judges of breaching the law, as the statute under which the appeals were heard specifically prohibits any decision contrary to consumer interests.

It is made even more extraordinary by the fact that the government is simply walking away from an agreement it reached merely two months ago with the states, establishing a joint process to determine the future of merits review.

And by setting regulators above the law, the abolition of merits review flouts every principle the Liberal Party stands for. There are, after all, good reasons the courts overturned regulators' decisions: those decisions were incorrect. But instead of addressing the causes of poor regulatory decision-making, the government has chosen to give the regulators carte blanche.

Life, said Kierkegaard, is lived forward but understood backward. Once the dust settles, it will be clear that we are doing to electricity what was done to telecommunications: destroying the market and making renationalisation inevitable. The only question left is when and at what cost.