

An end to the climate wars? Not on your nelly

Judith Sloan, The Australian, 12:00AM June 10, 2017

Will the Finkel report bring to an end the political climate wars that have waged for more than a decade in this country? Not on your nelly is my reply.

If anything, the report makes any politically feasible solution more difficult by arguing the case for more heavy-handed government intrusion in the electricity market workings.

And here's a very important warning: beware modellers who tell you that, in the best-case scenario, electricity prices could actually fall. Tell that to the householders who face power price rises of between 20 and 30 per cent in parts of Australia.

Garbage in, garbage out is the key reason to distrust the modelling, as well as the riding instructions given to compliant modellers. They are happy to adjust assumptions, often in hidden ways, to achieve the desired result. (Retaining a relatively hefty penetration of coal-fired power stations, operating at less-than-full capacity, is one of the critical assumptions in the report's calculations, as well as the arbitrary risk weighting attached to the business-as-usual scenario.)

Think about it: Finkel is effectively recommending that the renewable energy target continue, but in its renamed form, the clean energy target. By setting an emissions intensity benchmark that knocks out coal over time, it is not technology agnostic, as its proponents claim. It actually knocks out gas as well because of its high price and limited domestic supply at this point.

Look at what happens to the penetration of renewables under the Finkel recommendations: it goes from 16 per cent of electricity generation now to 42 per cent in 2030 — not far off Labor's holy grail of 50 per cent. It's no wonder Labor is tempted to sign on.

Gas goes from 6 per cent in 2020 to 5 per cent in 2030 and to just 3 per cent in 2050 — so much for the CET being neutral about technology. For a country with abundant gas supplies, this is a ridiculous result and is in stark contrast with the US experience, where the take-up of gas to electricity plants has led to falling emissions without any real government intervention.

And consider Finkel's Soviet-like command that coal-fired electricity plants must give at least three years' warning of closure, even if these plants are haemorrhaging money in the meantime. He can't be serious.

A possibly useful suggestion in the report is that all new renewable energy providers must include back-up as part of their offerings — batteries or pumped hydro storage, for example.

Given that wind has a utilisation rate generally of between 25 and 30 per cent of its maximum capacity, and factoring in the cost of the battery back-up, this requirement could

triple the cost of wind power, at least in the short term. The equation is slightly better for solar.

In practice, this requirement is likely to be fudged, with energy providers required to provide only a few hours of back-up — say on the basis of a one-for-one ratio of electricity produced.

It might be better than nothing, but it doesn't solve the reliability issue likely to plague the electricity system. It will be those creaking old coal-fired power plants doing that, even though under the CET there will be no new investment in coal.

There is plenty of water to go under the bridge before anything is settled. Labor will bang on about the need for a price on carbon even though the RET and the CET spin off a price on carbon. And the reality is if you put a price on carbon, electricity prices will rise, irrespective of what the voodoo modellers say.

The future of the electricity market is not pretty under any scenario.