

Malcolm Turnbull, I will bet you power bills don't fall \$90

[Judith Sloan](#), The Australian, 12:00AM June 13, 2017

If you believe your annual electricity bill will fall by \$90 every year for the next decade, you will believe anything. Renewables will go from 28 per cent of electricity generation in 2020 (including rooftop photovoltaics) to 42 per cent in 2030 (and 73 per cent in 2050) — but your electricity bill will fall each year. That's the Finkel review message.

It flies in the face of what we know about the international experience of renewables: there is an almost perfect positive relationship between the penetration of renewables and the price of electricity. Think Denmark and Germany with their high percentages of electricity generated by wind and solar (mainly wind), and think extremely high electricity prices.

Assuming I'm still around, I would be more than happy to eat my hat in 2030 if electricity prices have fallen by \$900 or more over the decade. Maybe Malcolm Turnbull and I can have a bet: we are the same age. It's odds on he'll be buying the champagne.

Let's face it, the forecast fall in electricity prices is a truly ridiculous proposition, although bear in mind what the prediction is really saying is that electricity bills could be \$90 less a year relative to what they otherwise might be. That's very different from saying electricity bills will fall in absolute terms; it really depends on the counterfactual the modellers assume.

This politically attractive forecast of falling electricity prices mirrors the equally ridiculous modelling result that emerged from the Warburton review of the renewable energy target released in 2015. We were asked to believe wholesale electricity prices would actually fall if the RET were retained in its then current form, with a target of 41,000 gigawatt hours by 2020. (This was adjusted to 33,000GWh.) That's right — electricity prices were going to fall between 2015 and 2020.

But take a look at what has happened to wholesale electricity prices — and, with a lag, retail prices — in the context of the ongoing RET, an outcome completely divergent from the one the modellers assured us would occur.

Wholesale electricity prices have soared from \$50 a megawatt hour on average to about \$150. Retail prices are being raised across a number of states by between 15 per cent and 30 per cent. A household facing an annual electricity bill of \$2000 a year easily could be slugged another \$400 to \$600.

And I just love how bodies such as the Climate Change Authority, the agency that Tony Abbott quite rightly wanted to get rid of, dismiss the significance of electricity price hikes. You see, they are only 2 per cent to 3 per cent of the average household's budget, so there really is no need to worry if the price of electricity goes up. Of course, the electricity bill is a bigger portion of the budget of low-income households — say, 4 per cent to 5 per cent — and that's a worry.

But maybe the government can help out these households in other ways. We wouldn't want to impede the march of renewables through the electricity system just because poor people find it hard to pay their bills.

And don't forget that these same people don't own homes and/or can't afford to install solar roof panels so they can enjoy the obscenely generous feed-in tariffs provided by state governments. It's classic wealth redistribution — from the poor to the rich, otherwise known as energy poverty.

What you have to understand about modelling undertaken for climate reports such as Finkel — yes, you thought it was about electricity reliability, but it's not really — is that its real role is to provide rhetorical support for the boosters of renewable energy. Behind all the technical details and assumptions of the modelling, many of which are not even made clear, the modellers work towards developing the case for more renewable energy and to downplay any negatives.

Often panel members of these reviews don't understand what's going on; the modelling can quickly become hellishly complicated. There are just so many scenarios about costs, demand, capacity retirement and investment, population growth and other variables. Pick a result you want and you can always work backwards.

For the layperson, the solution is simple — just cut to the chase and work from first principles. We know that installed capacity in the electricity system has fallen since 2010 and sits around 47,000MW. This is itself a very disturbing outcome given almost all the new investment is intermittent (renewable energy) and there has been substantial retirement of coal-fired power stations, with more to come.

The population has risen by more than 10 per cent but the installed capacity in our electricity system has fallen. Is it really any surprise that electricity prices are rising so steeply and reliability is such an issue?

Now Alan Finkel thinks the solution to this is to promote even more renewable energy by setting the emissions benchmark attached to the clean energy target so low that no new coal-fired power station will ever be built here — even the cleanest versions, or ones with carbon capture and storage. (There are hundreds of high-efficiency/low-emissions coal plants being built around the world; 45 in Japan alone.)

Finkel is being too cute by half saying there is nothing to prevent a coal-fired electricity plant being built under his grand plan. There is actually nothing technically preventing it now; it just that the subsidies to renewables destroy the economics of doing so and the risks are too high. And while we are using our common sense, can we think of an instance when central planning by governments has led to cheaper prices and better outcomes? The Finkel report thinks we need even more agencies — the Energy Security Board, for example — to guide us through this government-created morass.

Please spare us another one: We have the Australian Energy Market Commission, the Australian Energy Market Operator, the Australian Energy Regulator, the Clean Energy Regulator, the Clean Energy Finance Corporation, the Australian Renewable Energy Agency,

the Climate Change Authority — I'm sure I've missed quite a few. Then there are various state bodies, including their essential services agencies.

The bottom line is that a CET offered this government the potential to solve the electricity crisis. But the benchmark had to be set at a realistic level to bring in gas and clean coal, and it had to replace the RET now rather than waiting until 2020.

By contrast, the Finkel answer is to replace the existing RET with a higher RET. The only difference between Labor and the Coalition now is the wafer-thin margin between renewable targets of 50 per cent and 42 per cent in 2030.

But at least we won't have to worry about meeting our supposedly inviolable Paris emissions targets: the country will be so deindustrialised by that stage that we'll easily achieve them.