

Energy debate fuelled by infinite sources of renewable acrimony

[Chris Kenny](#), The Australian, 12:00AM July 8, 2017

If there is one economic issue where the ideological prancing and post-material indulgence of the media/political class clashes violently with the daily priorities and pragmatic common sense of the mainstream, it is energy policy. With the highest electricity prices in the world now achieved in South Australia (other states are in hot pursuit) and past blackouts heightening fears of further shortages, the situation is shambolic.

Imagine the lunacy of an energy-rich nation — one of the largest exporters of coal, gas and uranium — inflicting an energy crisis on itself. This is self-harm by government decree. The bipartisan renewable energy target has been the main cause. It achieved its aim of boosting investment in wind and solar generation but governments — federal and state, Liberal and Labor — ignored cost and security. Now, through the Finkel review, the Turnbull government is trying to retrofit affordability and security to an electricity network up-ended by the RET.

With coal generators priced out of the market in SA and Victoria, and insufficient investment in storage or back-up gas generation, the nation faces a pricing and security crisis. SA experienced the trauma of a statewide blackout triggered by a storm, system instability and over-reliance on interstate interconnection. It is worth noting that SA took the power price world title from Denmark, which also relies on wind for more than 40 per cent of its electricity.

Energy is the most crucial and volatile policy issue in national politics. In the wake of Finkel, we await a detailed plan from the government. It will be a defining factor in whether the economy can reclaim confidence, rekindle growth and diversify. It will determine whether the Coalition has a chance of remaining in office beyond the next election. And it will be critical in resolving or unleashing the titanic policy and personal struggle between Turnbull and his aggrieved predecessor.

[Energy bill pain: surge in cut-offs](#)

Tony Abbott talks a big game on electricity now he is free from the constraints of office or cabinet solidarity. He wants to cap the RET, invest in new coal generation and give priority to affordability and security over emissions reductions. But as prime minister, he behaved differently. Abbott scrapped the carbon tax but implemented direct action to cut emissions, supported the RET and negotiated the Paris target. None of this means he is wrong now; it merely exposes him to charges of hypocrisy, changeability and opportunism. Most of the media/political class are committed to climate gestures and renewable energy, so shout down his present interventions. But Abbott makes a lot of sense, especially to mainstream voters worried about the impact of power prices on household budgets or business cash flows.

The core policy challenge is described by Turnbull as a “trilemma”: meeting three criteria of affordable energy, secure supplies and reduced emissions. The fatal flaw is that reducing emissions is precisely what has made power more expensive and less reliable. If we really want the cheapest and most reliable electricity we would concentrate on thermal baseload generation and forget emissions. And if we really want lower emissions and refuse to - embrace nuclear, we must accept higher prices and less reliability.

Putting climate science arguments to one side, it is clear that given the minuscule size, globally, of Australia’s carbon dioxide reductions and the massive ongoing increases from China and India alone, our cuts will have no discernible impact on the planet. So as a nation we must decide whether we are prepared to pay a high economic price for no environmental gain.

Alternatively, we could decide this moment in time — with the US withdrawing from Paris, our economy in flux and global temperatures stubbornly refusing to rise in line with the models — might be opportune to abandon or forestall reductions targets and concentrate on economic stability. This is a proposition few politicians, aside from Cory Bernardi, Pauline Hanson and, less directly, Abbott, are prepared to even discuss. Little wonder the major parties are in strife.

Turnbull faces an even more challenging political “trilemma” than his policy challenge. A - workable political resolution on energy needs to meet three demands that, like his policy aims, are irreconcilable. The Prime Minister first needs a technically plausible plan, as he says, based on economics and engineering rather than ideology. This goal is compromised by the determination to reduce emissions by at least 26 per cent by 2030 and is a diabolical challenge for any technocrat given the starting shambles.

Turnbull’s policy must also pass through parliament and deliver investment certainty; the only way to satisfy those aims is to win agreement from Labor. If Bill Shorten approves of the package, it will sail through the Senate and business can confidently make investment decisions with perhaps two terms of policy certainty — an eternity compared with the dystopia of the past decade.

Finally, the Turnbull plan needs to demonstrate policy differentiation and political advantage to provide some chance of recovery in the polls and re-election. But the Coalition cannot simultaneously trump Labor and win its bipartisan support. Like his policy trilemma, this political trilemma cannot be resolved.

Prioritising the national interest would favour a solution that Labor could support, which is where Turnbull is drifting. It might involve a clean energy target where the subsidy cut-off is set at a level allowing high efficiency coal generation (about 0.6 tonnes per megawatt hour) — this would entrench prices higher than they otherwise would be but guarantee emissions reductions.

But politics is bound to intervene. Labor could leave the Coalition hanging out to dry, both because its left flank and the Greens would prefer to destroy coal, and it would present an irresistible chance to execute Turnbull politically. Why not destroy Turnbull on energy and

go with a carbon price, 50 per cent RET and higher global commitments once in office?
Labor seems to be trying to lure Turnbull into undermining his own leadership twice in eight years on climate policy.

There is also a catch-22 for the most conservative and pragmatic players such as Abbott. Even if a hardline Coalition could convince parliament to cap the RET and ditch emissions targets, the electricity crisis would not be over.

Knowing a Labor administration would turn all this on its head, the industry would have no confidence. At the very least, industry planners would factor in a price on carbon and, at worst, would join an indefinite investment strike. Past bipartisan policy has made investment so fraught for anything other than subsidised and intermittent renewable - energy that we are seeing a return to government intervention. Turnbull is directly intervening through his Snowy 2.0 hydro plan and other Coalition MPs, including Abbott, are talking about government-subsidised new coal generation. Just a year ago, for the want of about \$20m, the SA government stood and watched the demolition of a coal-fired station and Victoria taxed Hazelwood into retirement.

Renewables sound attractive and are popular when they work. But governments who allow high power prices to reduce living standards or fail to keep the lights on will not have their mandates renewed.