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A Low-Wattage PM's Useless 'Guarantee'

According to Malcolm Turnbull, his National Energy Guarantee 'will lower electricity prices, make the system more reliable, encourage the right investment and reduce emissions without subsidies, taxes or trading schemes.' Every word is a lie

The dust is yet to clear so we can judge how the National Energy Guarantee (NEG) will operate, but there is now enough clarity to be certain that the Wow!!!-infused exclamations of delight it received from sections of the mainstream media is totally unwarranted. The wailing from the green lobby stems from its bringing down the curtain on new large scale wind and solar investments post 2020.

The Prime Minister said,

The National Energy Guarantee will lower electricity prices, make the system more reliable, encourage the right investment and reduce emissions without subsidies, taxes or trading schemes. It is truly technology-neutral, offering a future for investment in whatever technology the market needs – solar, wind, coal, gas, batteries or pumped storage.

Unlike previous approaches, we are not picking winners, we are levelling the playing field. Coal, gas, hydro and biomass will be rewarded for their dispatchability while wind, solar and hydro will be recognised as lower emissions technologies but will no longer be subsidised.

None of this is true. The new policy has two arms: an emissions guarantee and a reliability guarantee.

The emissions guarantee

The NEG rejects the Finkel proposals that would have required a 42% renewable energy share by 2030. Instead it entails a continuation of the Renewable Energy Target involving 23.5% renewables in 2020 (33,000 GWh, or about 15 per cent subsidised and 8-9% from commercial hydro). As at present, retailers will be required to increase levels of non-commercial renewables within their product mix. The program will continue to expand until 2020 (in 2016 about 8% of electricity, 18,000 GWh, came from large-scale wind and solar) with subsidies paid each year until 2030.

Hence, the PM's claims that there is now "a truly technology neutral" and a "level playing field" are incorrect.

Wholesale prices have doubled since 2015 as a result of the renewable requirements forcing out coal and are now at around $90 per MWh. Short of a collapse in demand, there are no

prospects of this price declining. In addition to wind and solar obtaining the market price, the RET provides them a subsidy payment of $85 per MWh.

There are those in the renewable sector who claim that wind generation is now possible at a cost of under $60 per MWh and that no subsidies are required. Tellingly, none of those making such claims are following them up with advocating the end of those subsidies. Despite that fabled renewables' cost reduction and the doubling of the wholesale price, renewables in the forward market will still command an additional consumer subsidy of around $45 per MWh in 2022.

The reliability guarantee

The other arm of the policy involves a requirement that retailers give assurances they can meet their customers' demand even if their intermittent power is not available.

Retailers currently contract with customers to supply on demand whatever electricity is required. They ensure that this is available by contracting with suppliers (including in-house suppliers) for parcels of energy, adjusting this on a minute-by-minute basis using the forward and spot markets. Retailers place a low reliability standard on intermittent energy. In the Western Australia market this is set at 8% of nominal capacity, and in the rest of Australia each company makes its own assessment and contracts reserve insurance in line with this. Very high penalties can be incurred by retailers failing to match customers' demand with supply. Any wind operator with a contract of supply with a retailer — virtually mandatory to ensure financing — is therefore accompanied by a "firming" contract to cover its non-availability.

The new proposals will require the authorities pre-verify the availability of each retailer's supply by time of day and market. This is an infinitely complex process and must lead to a massive new bureaucracy, plus the introduction of costly, inflexible requirements.

The supposed bonus in lower consumer prices

The Prime Minister, quoting his favoured "experts" estimate the new proposals will bring about a $115 per annum reduction in household bills. Even if true this is scant compensation for $300 increase the renewable policy has caused.

However, the lowered bills can only come about if the policy stimulates considerable new investment or if there is a collapse in demand. It is suggested the policy will bring investment certainty and new plant but new coal or gas facilities are unlikely while the renewable subsidies are in place and the prospects of fresh measures remain.

The "reliability guarantee" merely regulates what prudent profit-maximising businesses are already doing and will do little to encourage new investment in what is now called despatchable energy. The (overdue) guillotine on subsidies for new wind will curtail investment in that supply source.

Lower household prices are possible as a result of a collapse in demand. Regulations favouring renewables have had a far more severe effect on business customers than on households because of their effect boosting wholesale prices, which comprise a large slice of businesses' bills and overheads. Smelters, for instance, comprise some 16% of electricity

demand; most smelters were attracted to Australia by what were formerly low energy prices. Government policies have eradicated that advantage. To see the farce that energy policy has become, consider the aluminium smelter in Portland, Victoria, which is being kept alive only by government subsidies to offset the cost-boosting consequences of the government's renewable regulations. You can't get more absurd than that.

Closure of smelters would reduce electricity demand and prices. Some would welcome such deindustrialisation and the elimination of highly productive assets. After all, aren't we always hearing the naïve claim that renewables create more jobs than traditional power stations. An analogous claim — that we would create more jobs if the carrying capacity of trucks were to be reduced by four-fifths — would be recognised in an instant, even by members of Australia's political class, as untenable and insane. Yet many back the same destructive logic with regard to electricity generation.

The future

Josh Frydenberg must understand these deficiencies of the energy policy he is marketing. Presumably his nightmare is that unless the present situation is stabilised, the renewables share will be further boosted, and the economy ruined, by the high prices and diminished reliability this entails.

But in stabilising the renewable energy at its present and 2020 projected level we can be certain that Australia's former comparative advantage in energy costs — the very same advantage present policies have destroyed — will not be restored and our living standards will be very much lower than they would otherwise be.

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