## Energy reform: bid to cut bills will push up costs

David Uren, The Australian, 12:00AM October 18, 2017

The proposed emissions guarantee is the carbon tax you get when you ask a regulator to design one, leaving the government free to claim it is not adding to power bills while the costs of inefficient regulation are passed on to consumers.

A minister remarked in an aside yesterday that “economic modelling was devised to make astrology look good”. The notion this policy will reduce power bills by $115, as preliminary analysis claims, is fantasy. Instead it will push electricity prices higher.
Rather than offer an incentive to shift to lower emissions, the emissions guarantee imposes a direct, regulatory obligation on electricity retailers to deliver power that meets a minimum emissions standard, set by the regulator.

The government is not calling it a “clean energy target” for fear of upsetting its backbench, but it has the same effect. Not meeting that obligation would mean business-destroying deregistration from the National Electricity Market.

Although it would be up to the electricity retailer to decide how to meet that minimum standard, the Energy Security Board envisages it would involve an average of from 28 to 36 per cent use of renewables by 2030, including up to 24 per cent from solar and wind. If the cheapest power available under contract did not deliver that minimum, retailers would have to buy more expensive power to ensure it was met.

Although Energy Security Board chairman Kerry Schott said the guarantee did not set a price on carbon, meeting the target would have a cost that would be added to retail bills, just like a carbon tax. The ESB appears to accept this, commenting that “banking and borrowing” of emissions obligations would be allowed while retailers’ compliance with their guarantees was being assessed.

They could also buy carbon credit units generated by farmers who reforest cleared land or international carbon credits to meet some of their obligation. This looks a lot like an emissions trading scheme confined to the electricity sector.
The board envisages emissions-intensive and trade-exposed industries, such as steel and aluminium, would be exempt from the emissions standard, as they are now from the renewable energy target. “The liability from this electricity

would have to be met by the rest of the sector," the ESB policy recommendations says.

This is the same as the treatment under the carbon tax and again, acknowledges that the policy will impose liabilities.

Labor's carbon tax and ETS were economy-wide imposts but offered incentives for emissions reduction by those who could most afford it. Putting the main burden on to the electricity sector is likely to be inefficient.

The emissions guarantee has been paired with a reliability guarantee in an effort to deal simultaneously with problems of carbon emissions and investment in dispatchable power.
The two guarantees tug in opposite directions, the emissions guarantee biasing retailers against coal and the reliability guarantee biasing them towards it. They will not be able to resolve that conflict without incurring costs.