

Judith Sloan: Less power to the rent-seekers



GetUp! sent an email to members titled “We need one more state to block Turnbull’s dirty energy plan”.

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I have been a close follower of the interaction between economics and politics in Australia for a very long time. I have witnessed many examples of self-serving behaviour portrayed as being in the national interest.

Economists even have a name for such behaviour — rent-seeking. It involves parties looking to increase their own wealth without actually improving our wellbeing. Indeed, we are almost always made worse off while the rent-seekers become unjustifiably rich and influential.

Sadly, Australia has had more than its fair share of rent-seekers and rent-seeking industries. The individuals involved always play hardball. But there is no doubt in my mind that the rent-seekers in the renewable energy space leave most other rent-seekers for dead when it comes to misinforming, threatening and bullying.

Let me give you a few examples. John Grimes, who heads up the Smart Energy Council which represents the solar industry, described the 2014 Warburton -

review of the renewable energy target as “genocide”. He went on to claim that “we don’t make hollow threats”.

More recently, Grimes has promised to run an expensive “ruthless campaign” against the proposed national energy guarantee. This is notwithstanding the fact that his council could manage only a three-page submission devoid of any analytical content to the Energy Security Board whose task is to finalise the details of the NEG.

Needless to say, the Smart Energy Council is only one of a number of rent-seekers in the renewable energy space. Many are also associated with lobbyists close to both the federal and state governments.

GetUp! has decided that the NEG doesn’t provide enough ongoing subsidisation of renewable energy. In an email from Miriam Lyons of GetUp! to the members titled “We need one more state to block Turnbull’s dirty energy plan”, she outlines why it is important to persuade a state government to veto the NEG in order for the ACT government to act on its aversion to the NEG.

“For state governments to defy Turnbull, they need to know they have the support of their constituents. So we have to show them just how much public support there is for a clean and cheaper sun-powered future.” (Evidently, wind is so yesterday.)

“Can you take a few minutes right now to message your state energy minister and let them know you want an energy plan that creates more renewables, not less?” GetUp! has helpfully prepared “the ultimate list of reasons to reject the NEG backed by evidence — tailored for every state energy minister”. It’s a sort of rent-an-email campaign.

Mind you, when you look at the ultimate list, it’s incredibly lame. But here’s the one I really love: “The NEG’s targets are too weak to cut power prices.” Among the ridiculous claims the renewable energy sector continues to make is the idea that more renewable energy will lead to lower electricity prices. Of course our experience has been the reverse, but that doesn’t stop them throwing in the factoid that renewable energy is now the cheapest form of power — just don’t stop the subsidies, though.

Take a look at the period 2008 to 2018, when electricity prices rose by almost 120 per cent. Over the same period, the proportion of electricity sourced from renewable energy rose about 75 per cent.

If we look internationally, we find a very close correlation between the electricity prices in a country and the proportion of electricity sourced from renewable energy. For example, Germany and Denmark have very high penetrations of renewable energy and among the highest electricity prices in the world.

Of course, it is never easy to predict future prices, but this doesn't stop the very small band of climate modellers in this country giving it a shot. Often shrouded by a lack of clarity about the identity of the modellers or the modelling firm, predictions tend to be made without the key assumptions being clear.

Take the modelling done for the Warburton review. The ludicrous claim was made that the only scenario that would lead to lower prices compared with keeping the scheme as it was then was having renewable energy making up an even higher proportion of electricity generation. Closing the scheme to new entrants would have led to the highest price rises, according to the modellers.

These were clearly nonsense, but that didn't stop them influencing the Abbott government's decision to revise the RET rather than ditch it. It turns out that the key assumption that the modellers were making was that there would be no retirement of any baseload plants over the period to 2030.

What the renewable energy rent-seekers refuse to acknowledge is that electricity generation and the need for 24/7 reliability is not a normal market. Additional intermittent supply will generally not cut prices.

Given the load factors (the proportion of actual electricity generated to nameplate capacity) — 30 per cent for wind and 20 per cent for solar — it is entirely possible that more renewable energy will actually increase prices as it forces the pace of the retirement of cheap dispatchable power plants. This happened with the closure of the Northern power plant in South Australia — which wasn't particularly old — and of Hazelwood.

It's all very well talking up batteries, pumped hydro, additional interstate connections and gas peaking plants, but none is cheap. The Australian Energy

Market Operator estimates the additional expenditure to keep the electricity system ticking over until 2030 could be \$27 billion. This capital spending will require an adequate return.

Mind you, we wouldn't be betting our houses on the prognostications of AEMO, which has been all over the shop on electricity market issues. First, we had nothing to worry about with the closure of Hazelwood. Six months later, we were told to panic.

Now we are told coal-fired plants will remain the cheapest source of electricity for decades and we must keep them operating. Turns out AEMO's vision of the beautiful transformation of our system to distributed generation with lots of demand management has its downsides.

And then we have the equally nonsensical projections of the Energy Security Board, again from unknown modellers using hidden assumptions, that under the NEG, residential electricity bills will fall by between \$100 and \$115 a year to 2030. Pull the other one. On this basis, our annual bills will be more than \$1000 lower by then.

But I will defend the NEG against the self-serving criticisms being made by renewables rent-seekers. With a number of adjustments — a tighter definition of reliability, the use of carbon offsets to meet emissions targets and new user-driven dispatchable plants with the later years guaranteed by the government — I can probably live with it. It's also the only game in town.

If prices could at least stabilise or fall slightly, that would be a better outcome than ongoing increases. We have been extremely foolish to get where we are, but let's not forget that omelets are impossible to unscramble.