

Electricity Prices Predicted Under NEG Seem Totally Wrong

Recipients of my Commentary (who include Environment Minister Frydenberg and PM Turnbull) know that recent Newspolls show only 24% support for reducing carbon emissions by 26% (cf 2005) by 2030 and 48% favour pulling out of the Paris accord (14% Uncommitted). They are also aware that the CEO of the Australian Energy Market Operator has advocated continuing to use existing coal-fired generators for the next 20 years because electricity prices will be lower than using other fuel sources. And that Turnbull has acknowledged this view as correct.

This advocacy and acknowledgement comes after Australia has experienced between 2010-11 and 2017-18 about a trebling in wholesale electricity prices in Victoria, South Australia, and Tasmania and about a doubling in NSW and Queensland. One might suggest that it's time for the Turnbull government to recognise the growing concern of the electorate with the price effects of its climate policy.

Yet Frydenberg has just predicted that, even if carbon prices are reduced by 26% by 2030 to comply with the Paris accord, electricity prices would fall significantly over the period to 2030. So, will the advocacy by AEMO's head be accepted and existing coal-fired generators *not* be reduced to any significant extent? Or will Frydenberg's prediction be accepted, viz that the proposed climate policy will still allow reduced prices to occur despite the replacement of cheap coal by costly renewable?

Frydenberg's prediction appears to be based on modelling undertaken by Frontier Economics, which the Energy Security Board employed to help with its advice to the Turnbull government regarding the structure of the proposed climate policy (this policy has of course become known as the National Energy Guarantee or NEG). Approval of that policy will be sought from State governments next month in the hope that it will become a national policy.

But any modelling by Frontier Economics is open to serious questioning. It is sometimes described as being able to produce results which are the desired outcome of those who commissioned the modelling. In this case its conclusion on prices does in fact raise serious questions.

The Advice document published by the ESB contains extensive analysis which includes modelling attributed to Frontier Economics. On prices it predicts an

unbelievably steep fall in electricity prices from 2018 to 2022 after NEG, as to be scheduled, comes into operation (by 2022 the predicted price is about 60% lower than what it was in 2018!). Advice writes that this is “due to the committed entry of almost 6,000 MW of renewable capacity across the NEW, principally incentivised by the existing Renewable Entry Target” and it claims that this “leads to more competitive bidding from coal and gas, which reduces prices somewhat” (page 4).

So, the NEG appears to envisage a miracle outcome – that during the period to 2030 the major reduction in the usage of cheap coal and the increased usage of more costly renewable is modelled to produce an initial sharp fall in prices and only a modest rise after that, but not sufficient to return the level of prices to what they were in 2018. At the least, this analysis requires checking with a different modeller!

A more realistic assessment would be that the additional usage of renewable required by the Turnbull government’s stated climate policy, and which have higher costs than coal, is most likely to force additional closures of coal-fired generators and create a higher level of electricity prices, unless of course more subsidies are provided by the taxpayer. It should be noted that at present renewable now provide only a small proportion of fuel (about 5% in 2017 compared with 61% from coal) and the major increase envisaged under NEG would have the potential to add significantly to prices. This is consistent with standard economics.

The reality is that it is not possible to keep existing coal generators providing cheap power and at the same time cut carbon emissions from the source of that power. One has to go. The policy zeitgeist of whether to retain the cuts or retain such cheap power is a challenge the Turnbull government must now address.

McCarran Predicts That Increased Usage of Renewable Would Also Require Additional Back-Up But From Sources Which Would Not be Fully Used

Today’s Australian publishes an important article by Terry McCarran which also suggests the failure to recognise another reality under proposed NEG (see attached **McCarran Ridicules Use of Windpower**). In fact, he argues that “the basic uselessness of wind and solar but especially wind as mainstream electricity generation sources should be obvious” because their use would require additional investments in other sources as back up to meet the normal regular demand for electricity. But such investments would only be used when

wind/sun were unavailable to provide fuel and, as such, would be wasted investments.

As McCrann puts it, “that is to say we would need the equivalent of 10-12 Hazelwoods that would be sitting idle when the wind does blow, just so they could be cranked up when the wind doesn’t”. But that would not come from the private sector because the return on capital would be inadequate. Some form of government guarantee would be required and it would likely require the retention of many coal-fired generators!

Conclusion

Turnbull commissioned a group of “experts” (the ESB) to develop a detailed climate change policy consistent with the Paris accord. These experts appear to all be believers in the dangerous warming theory. The ESB’s Advise report appears to reach some highly questionable conclusions about the effects of pursuing the proposed policies, particularly in regard to the modeling of the price of electricity. The latter needs to be checked by a genuinely independent modeler and the two Ministers most involved (Turnbull & Fyrdenberg) need to recognize publicly that it is not feasible to reduce cheap coal-fired power and at the same time expect to have lower prices. They also need to recognize that a policy which effects a major increase in renewable would require a major investment in back-ups that would not be economic and would need government support and/or government operated suppliers of power.

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