

Five unanswered questions from the Finkel Review

In the wake of South Australia’s September 2016 blackout, the Council of Australian Governments Energy Council announced the establishment of an ‘expert panel’ chaired by Chief Scientist Dr Alan Finkel AO to “develop a national reform blueprint to maintain energy security and reliability in the National Electricity Market (NEM).”¹

1. Is the cost of electricity in Australia from renewables really cheaper than electricity from coal?

No.

Prior to 2007, average wholesale electricity prices in the National Electricity Market ranged between \$30 to \$40 per megawatt hour.²

So far in 2017, after a sevenfold increase in solar and wind power under the Renewable Energy Target,³ wholesale prices are ranging between \$65 to \$108 per megawatt hour⁴ with futures prices consistently higher.

On p.201 of the Finkel Review it is in fact projected that in 2020 the levelised cost of electricity from the various energy sources will be:

- Wind - \$92 per megawatt hour (MWh);
- Large-scale solar photovoltaic \$91/MWh;
- Large-scale solar photovoltaic with storage \$138/MWh;
- Solar thermal with storage \$172/MWh;
- Closed-cycle gas \$83/MWh;
- Open-cycle gas \$123/MWh;
- Supercritical coal \$76/MWh; and
- Ultra-supercritical coal \$81/MWh.⁵

2. If, renewables are cheaper than coal and gas, why does renewable energy need to be subsidised through measures such as the renewable energy target?

Good question.

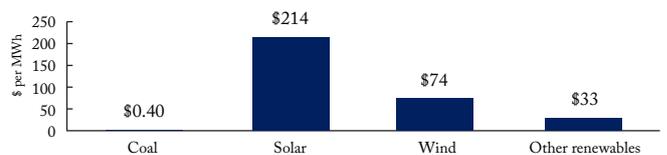
Recently, commentator Alan Kohler argued that “solar and wind power costs are at the point of becoming cheaper than coal and gas, without the RET, and in some places already are...” and that “battery prices are also collapsing.”⁶

The apparent competitiveness of renewables is only a product of subsidies and government intervention,

recently estimated as being worth \$3 billion per year in 2015-16.⁷

If renewables are already cheaper than fossil fuel as its supporters claim, then let’s remove all federal and state government programs and agencies that support renewable energy development and generation.

Subsidies Per Unit Of Electricity 2015-16



Source: BAEconomics, Electricity production subsidies in Australia, Mar 2017

3. The Finkel Review refers a number of times to a “Business As Usual” scenario. What is it?

It is a straw man.

Dr Finkel claims that electricity prices will be \$90 per year cheaper⁸ under the proposed Clean Energy Target against the so-called Business As Usual scenario.

However, Business As Usual is not an Australia with the secure and affordable electricity system it once had.

It is an Australia with prices inflated by a Renewable Energy Target, Australian Renewable Energy Agency, Clean Energy Finance Corporation, state energy targets and other government and regulator policies stifling internationally competitive gas and coal generation resources.

The cost impact on electricity bills of a Clean Energy Target (or Emissions Intensity Scheme) should be judged against a Business As Usual scenario where all energy technologies, including coal, gas and nuclear are able to compete in an open market.

4. What is the practical effect of the apparent 600 kilograms per megawatt hour generator benchmark?

Given that the origin of the proposed Clean Energy Target benchmark of 600 kilograms of CO₂ per megawatt hour⁹ is unclear, parliamentarians should carefully examine the yet-to-be released modelling behind it.

This benchmark would punish almost all coal-fired power generation, and force even more renewables into the National Electricity Market.

If an emissions benchmark is to be set for current or new generators in the market, it should be set at a level that would allow all fuel technologies to compete, for example 800 kg/MWh for black coal and 900 kg/MWh for brown coal.¹⁰

5. Will there still be an energy market if the Finkel Review is implemented?

Not really.

The Review's recommendations included new 'Energy Security and Generator Reliability Obligations', an agreed federal/state 'emissions reduction trajectory', Health of the National Electricity Market report, assessment of resilience to human and environmental threats, integrated grid plan, options for subsidised funding mechanisms for low income access to energy efficient appliances, rooftop solar and battery systems, more powers for the Australian Energy Market Operator and a new, overarching Energy Security Board.

The Review also recommends banning generators from closing unless they first give regulators three years' notice.

The system is on the verge of a return to the command and control ethos that the national electricity market replaced, but in the twenty-first century the commanders will not be the engineers like Sir John Monash in Victoria who were committed to building a reliable and competitive electricity network.

Its commanders will be national-level policy makers committed to transitioning to a zero emissions economy.

Conclusion

The report noted that a 'stable policy environment' was required for industry confidence and to plan for the future.¹¹

However, if the point of this review was to establish a basis for a bipartisan approach to energy policy, that hurdle fell even before the report was released.

On 6 June Shadow Environment Minister Mark Butler promised support conditional on a new scheme being able to be 'scaled up in the future'¹² - an undertaking repeated on a number of occasions the following week and on the morning of the Report's release, Victorian Premier Daniel Andrews also refused to abandon that state's own 40 per cent Renewable Energy Target¹³

Effective policy is more important than so-called bipartisan policy.

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- 1 COAG Energy Council, 'Blueprint for Energy Security in the National Electricity Market Terms of Reference,' <http://coagenergycouncil.gov.au/publications/independent-review-terms-reference>
 - 2 Australian Energy Market Operator, Data Dashboard, <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Data-dashboard#average-price-table>
 - 3 Australian Government, Department of Industry, Innovation and Science, Australian Energy Statistics, Table O, <https://industry.gov.au/Office-of-the-Chief-Economist/Publications/Pages/Australian-energy-statistics.aspx> and Clean Energy Australia Report 2016, p.8, <https://www.cleanenergycouncil.org.au/policy-advocacy/reports/clean-energy-australia-report.html>
 - 4 Australian Energy Market Operator, Data Dashboard, <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Data-dashboard#average-price-table>
 - 5 Australian Government, Department of the Environment and Energy, 'Independent Review into the Future Security of the National Electricity Market,' p.201, <http://www.environment.gov.au/energy/publications/electricity-market-final-report>
 - 6 *The Australian*, 'Trump's Paris Withdrawal Is Empty Theatrics,' 4 June 2017, <http://www.theaustralian.com.au/business/opinion/alan-kohler/trumps-paris-withdrawal-is-empty-theatrics/news-story/847d3dc3a2d687a9561bf501de86372c>
 - 7 BAEconomics, 'Primer on Renewable Energy Subsidies in Australia,' January 2017, http://www.minerals.org.au/file_upload/files/reports/MCA-renewables-subsidies-8Jan2017-2.pdf
 - 8 ABC News, 'Finkel Review: Households and Businesses Better Off Long Term With Clean Energy Target,' 9 June 2017, <http://www.abc.net.au/news/2017-06-09/finkel-report-households-better-off-under-clean-energy-target/8605734>
 - 9 ABC News, 'Finkel Review: Government Backbenchers Question Clean Energy Target Report,' 10 June 2017, <http://www.abc.net.au/news/2017-06-10/pro-coal-backbenchers-undermining-finkel-report-labor-threats/8606652>
 - 10 World Coal Association, High Efficiency Low Emissions Coal Factsheet, https://www.worldcoal.org/sites/default/files/resources_files/Hele%20Factsheet.pdf
 - 11 Australian Government, Department of the Environment and Energy, 'Independent Review into the Future Security of the National Electricity Market,' p.86, <http://www.environment.gov.au/energy/publications/electricity-market-final-report>
 - 12 *The Australian*, 'Mark Butler: Labor has Open Mind on Alan Finkel Energy Reform,' 6 June 2017, <http://www.theaustralian.com.au/national-affairs/mark-butler-labor-has-open-mind-on-alan-finkel-energy-reform/news-story/84e9972fbc3a66977fc1bf51191316b4>
 - 13 *The Australian*, 'Andrews Won't Abandon Victoria's RET Target,' 9 June 2017, <http://www.theaustralian.com.au/national-affairs/climate/andrews-wont-abandon-victorias-ret-target/news-story/1a066eb850cc50877afacbc9844ef55a>
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