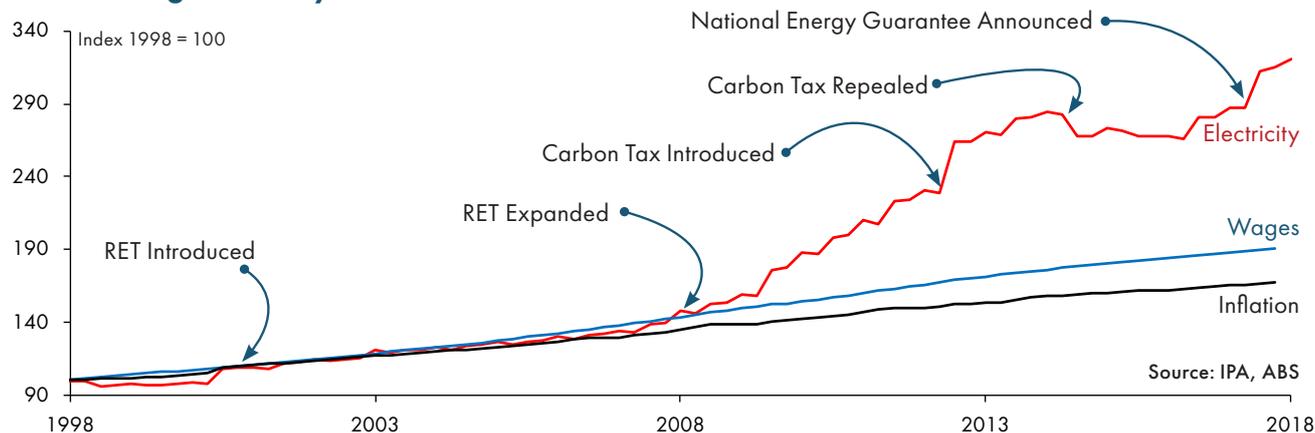


FIVE REASONS WHY THE NEG WOULD BE BAD FOR AUSTRALIA

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Chart 1: Rising Electricity Prices in Australia



The government announced its new energy policy, the National Energy Guarantee (NEG), on 17 October 2017.¹ The adoption of the policy followed advice from the Energy Security Board.² The NEG purports to manage the energy “trilemma” of reducing emissions, reducing power prices, and improving supply reliability.³ Through the NEG the government intends for Australia to reduce its carbon emissions by at least 26 per cent by 2030 from 2005 levels, in line with the Paris Climate Accord.

1. The NEG is not technologically neutral

The NEG is designed for Australia to meet its Paris Climate Accord carbon emission reductions requirements. To achieve this, the NEG would place obligations on energy retailers to ensure the “average emissions intensity of their load is at or below the prescribed electricity emissions intensity target.”⁴

The NEG, in other words, is an Emissions Intensity Scheme which will favour less carbon-intensive forms of energy generation such as wind and solar at the expense of coal-fired energy generation. In this way, the NEG is functionally equivalent to the Renewable Energy Target, a Clean Energy Target, an Emissions Intensity Scheme, or a carbon tax. All of these schemes use either direct subsidies or regulatory interventions to favour weather-dependent energy generation.

2. The NEG puts emissions reductions ahead of affordability and reliability

Reducing emissions faster than what would prevail under market conditions and reducing electricity prices are contradictory objectives. Under normal market conditions, energy retailers would source energy from the least cost source, controlling for quality (such as reliability). The requirement to reduce emissions means retailers will be forced to acquire energy from higher-cost sources than what would otherwise be the case.

If reducing emissions and reducing electricity prices were in harmony, there would be no need for government interference as the market would naturally shift in that direction.

The NEG privileges emissions reductions by placing a:

- \$100 million tax on retailers which do not meet their emissions reductions obligations.
- A tax of between \$1 million to \$10 million for retailers which do not meet their reliability obligations.⁵

This means the NEG favours emissions reductions over reliability by a factor of up to 100-to-one.

Sub-optimally high use of weather-dependent energy generation is a key cause of Australia’s high and rising electricity prices. Each substantial government intervention to promote renewables at the expense of coal has coincided with sharp price rises, as shown in Chart 1.

3. Reducing emissions is not in Australia’s nation interest

A central component of the NEG is for operators in the energy sector to reduce their carbon emissions to a greater extent and faster than what would take place under the status quo.

However, reducing emissions is not in Australia’s national interest.

- Human activity accounts for 3 per cent of carbon emissions.⁶
- Australia accounts for just 1.5 per cent of human emissions.⁷
- The electricity generation sector accounts for less than one per cent of human emissions from Australia.^{8*}

This means what Australian electricity generators do makes no noticeable difference to the global climate.

Moreover, other countries are not meeting their Paris Climate Accord targets:

- The United States, the world's second largest emitter, has withdrawn from the Accord.
- China, the world's largest emitter, is able to increase its emissions under the Accord.
- No EU nation is on track to meet its target by 2030.⁹

4. The NEG is not a "market-based" solution

The Department of Environment and Energy's website says the NEG is a "market-based" solution.¹⁰ It isn't.

- The NEG forces energy retailers to acquire more energy from wind and solar than they would under a market-based system.
- If retailers fail to meet their obligations, they are faced with a \$100 million tax.
- The objective of the NEG to solve the policy "trilemma" of lower prices, more reliability, and lower emissions is a political invention.

The government is also continuing to provide tax payer handouts to weather-dependent energy generation through:

- \$4.3 billion to the Clean Energy Finance Corporation.
- \$3.5 billion to the Australian Renewable Energy Agency.
- A \$2.5 billion emissions reductions fund.¹¹

The government is also:

- Running a nationalised energy generator through Snowy 2.0, at a cost of \$10 billion.¹²
- Continuing with the Renewable Energy Target until 2020, at an estimated annual cost of \$2.1 billion.¹³
- Persisting with regulatory restrictions on the development of nuclear energy.

Further, Australia's energy market is governed by a plethora of unelected regulatory bodies, including the Energy Stability Board, the Australian Energy Market Operator, The Australian Energy Regulator, the Australian Energy Market Commissions, and the Australian Competition and Consumer Commission.

5. The NEG will diminish economic opportunity in Australia

Low cost and reliable electricity supply is a central component to economic opportunity and prosperity. Australia has an abundance of natural resources, including:

- Over 1000 years' worth of coal.¹⁴
- 30 per cent of global uranium supplies.¹⁵
- An abundance of natural gas.¹⁶

This means Australia should have amongst the lowest energy prices in the world. Instead, Australia has amongst the highest prices in the world. High energy prices are a key reason why new private business investment in Australia is just 11.7 per cent of GDP, which is lower than it was during the Whitlam years.¹⁷

Concomitantly, Australia's international competitiveness is declining. According to the World Economic Forum, in 2004 Australia was the 9th most competitive economy. Today it is 21st.¹⁸ This is being driven by energy policy:

- The quality of Australia's electricity supply dropped from 22nd in 2009 to 44th today.¹⁹
- The ACCC noted that there is a "severe electricity affordability problem ... [that is] putting Australian businesses and consumers under unacceptable pressure."²⁰
- Matt Howell, Chief Executive Officer of Tomago, which is Australia's biggest aluminium producer, said renewables are unable to deliver affordable and reliable energy and are a threat to Australia's industrial base.²¹

Conclusion

The NEG is the functional equivalent to a carbon tax, implemented via an emissions intensity scheme. The outcome, as with a carbon tax, is government interference which favours wind and solar energy generation at the expense of coal.

The NEG will impose substantial and irreparable economic damage on Australian workers, businesses, and families, without delivering a discernible environmental dividend. The NEG is not in Australia's national interest and should not be implemented.

Instead, the government should:

- 1 Remove emissions reductions as an objective of energy policy.
- 2 Withdraw from the Paris Climate Accord.
- 3 End all subsidies and non-subsidy favours to renewable energy generation.
- 4 Reduce regulation and red tape on the development coal-fired power stations.

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* A typographical error from a previous version been corrected. The word "in" should have been "from".