The heavy cost of renewable energy requirements
The Coalition needs to get rid of more than just the carbon tax, writes Alan Moran

The carbon tax was the tombstone of the ALP’s 2013 election policy platform.

But it is only one of a family of measures providing nutrition for the crusade by numerous scientists, officials, university lecturers and renewable energy installers supposedly to save the world from catastrophic human-induced global warming.

This year the carbon tax will impose a cost of some $9 billion on the economy, and a Treasury endorsed OECD analysis argues that the tax rate would have to triple from its current level to achieve the government’s 2020 emissions target.

Other costs came from regulations to enforce energy saving standards. These include star ratings like those on new houses that add some $6,000 to the cost of each new home.
There were also subsidies from the budget, which amounted to some $4 billion a year. Half of these were funneled through the now moribund Clean Energy Finance Corporation. The Abbott Government is reducing previously envisaged spending but intends to replace some of it with its own Direct Action plan that involves carbon fertilisation of soil and buying out carbon emissions, measures that many consider will be fruitless gestures.

Overall, renewable requirements add about 40 per cent to the wholesale electricity price.

Roof top solar facilities have fallen in price and now receive less favourable regulatory treatment than previously. Nonetheless, their electricity generating costs and grid connections that are subsidised by commercially supplied electricity makes roof top solar at least five times more expensive than coal.

Finally there are the impositions derived from renewable energy requirements. The requirements rise year by year and the scheme’s costs are set to rise to over $5 billion a year by 2020. By then, the renewable program would have imposed a total damage bill amounting to some $23 billion and the program costs are planned to continue at least until 2030.

Renewable energy requirements for electricity supply have been around since 2001. Over the years the mandatory share has been expanded and is scheduled to ramp up to constitute a notional 20 per cent of electricity supply by 2020. Aside from around 15,000 gigawatt hours (GWh) of commercial hydro, this has been specified as a 2020 target of 45,000 GWh of subsidy-reliant electricity. The target comprises 4,000 GWh for small scale, roof-top solar facilities and 41,000 for larger facilities, overwhelmingly comprising wind farms.

Wind generation costs are at least $100 per megawatt hour (MWh), compared with less than $40 for coal, the predominant electricity supply source. Wind also involves some increased network and back-up costs.

The ALP/Green alliance tried to lock-in future spending on renewable energy. To this end it set up the Climate Change Authority (CCA) from which the government must seek a report before any modification of the renewable requirements can be contemplated. The CCA comprises a gaggle of ALP/Green friends—including Bernie Fraser, John Quiggin, David Karoly, Heather Ridout, Clive Hamilton—to guarantee the former government the answers it wanted.

To provide fig leaves of respectability, the CCA legislation provides for a compliant secretariat and submissions from firms keen on receiving subsidies. The CCA also has a budget for consultants, who are chosen for their proven ability to promote the oxymoron that increasing the costs of energy can lower its price.

Unsurprisingly, CCA’s December 2012 Renewable Energy Target Review found that there was an on-going need for renewable subsidies, pretty much in line with the existing arrangements. A major consideration was the CCA’s view that this would avoid increased uncertainty on the part of investors. One CCA member, Elana Rubin, whose career starting as head of a union super fund took off 13 years ago with Victoria’s Bracks Government, unblushingly said that such certainty was essential to provide good investment opportunities to super funds.

But political uncertainty is inevitable for businesses reliant on government subsidies. And with renewables, an understandable concern about the on-going willingness of government to subsidise inherently uncompetitive assets is combined with the increasing scepticism about the merits of the carbon dioxide reduction program which the policy ostensibly promotes. These factors and local opposition to wind farms have led to investment slowdowns.

In December 2012 there was about 3,200 megawatts (MW) of wind capacity in Australia. That’s about 6 per cent of generating capacity, but wind supplied only 3 per cent of total electricity supply because of its intermittent nature.

In order to reach the Renewable Energy Target another 8,800 megawatts of wind generation capacity is required but only 1200 MW was committed or under construction in December 2012.

In its December 2012 review, the CCA noted that due to the slowdown in build rate the RET target was looking ambitious. It was, however, reassured by the presence of the Clean Energy Finance Corporation which said it was ‘in a position to facilitate the flow of funds into the renewable energy industry, and encourage projects that otherwise may not have gone ahead’. What a difference an election makes!
# Australia’s Energy Choices

<table>
<thead>
<tr>
<th>Share of the Australian electricity market*</th>
<th>Typical plant size in megawatts</th>
<th>How often is it available?</th>
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</thead>
<tbody>
<tr>
<td>Coal</td>
<td>75</td>
<td>500 MW</td>
</tr>
<tr>
<td>Gas</td>
<td>16</td>
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<td>Wind</td>
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<td>3 MW</td>
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<tr>
<td>Nuclear</td>
<td>-</td>
<td>1000 MW</td>
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* excluding Western Australia and the Northern Territory

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**A MEANS OF TERMINATING THE RENEWABLE ENERGY REQUIREMENTS HAS TO BE FOUND. PREFERABLY THIS SHOULD BE DONE IMMEDIATELY.**

Climate alarmists latch onto every climate catastrophe as evidence that mankind is destroying the planet. Even the recent NSW bushfires were attributed to previous emissions of carbon dioxide, with dark mutterings that Tony Abbott would exacerbate matters, in spite of the fact that the most recent IPCC report had been forced to acknowledge that there had been no increases in temperatures or extreme events over the past 10-15 years.

Even if greenhouse gases were bringing about harmful climate change, there is nothing that Australia can do to mitigate this - 90 per cent of the world emissions are now attributable to nations which will not moderate such activity within their own domestic economies.

With the carbon tax to be terminated, attention therefore needs to be turned to repealing the renewable requirements.

In raising the wholesale cost of electricity by 40 per cent, the effect of the legislated 45,000 GWh of subsidised renewable energy means a direct increase in households’ electricity bills by about 12 per cent. Of course, the effect on living standards is far higher than this since the costs are incorporated in all goods and services.

The price effect on major energy users is far greater than this—in some cases double the 12 per cent increase that
households directly incur. And for businesses, especially those with options of relocating overseas or in competition with foreign suppliers, even a minor increase in energy costs has massive repercussions. This is because business decisions are conditioned by profitable opportunities and risks. Profit is the residual after all other costs are met. If it comprises 10 per cent of sales value and if electricity costs are 6 per cent of total costs, a 20 per cent cost increase adds only 1.2 per cent to overall costs. But it also reduces profit by 12 per cent and, as evidenced by recent announcements to close or mothball aluminium smelter capacity, that is more than enough to dictate locational decisions.

A means of terminating the renewable energy requirements has to be found. Preferably this should be done immediately. Beneficiaries would argue that terminating the renewable subsidies would constitute ‘sovereign risk’, with adverse effects on investment generally. But we are already seeing previously guaranteed income streams from overseas renewable schemes facing early termination. No investor can reasonably expect a subsidy to prevail for 15 years, and there would be few precedents for a government committing its successors to 20 years of worthless expenditure. As former Commonwealth Treasury Secretary John Stone famously said, ‘Favours freely given by government can just as freely be taken away’.

The case for an immediate termination is strengthened by the fact that the original rationalisations for the subsidy program have been undermined. No longer is it seriously maintained that in a few years’ time renewables will, with modest initial support, become competitive with conventional supplies. And it has also become clear that the world will not undertake carbon dioxide abatement measures comparable to those of Australia, hence any domestic measures have a trivial effect.