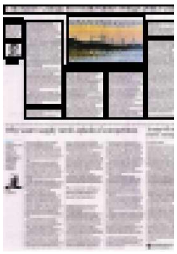

19 Jan 2017
Australian Financial Review, Australia

Author: Josh Frydenberg • Section: General News • Article type : News Item
Audience : 48,009 • Page: 39 • Printed Size: 407.00cm² • Market: National
Country: Australia • ASR: AUD 7,117 • Words: 814 • Item ID: 715351966

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The states' charge into renewables brings policy chaos

Energy policy

State-based wind and solar targets distort investment outcomes for little gain.

Josh Frydenberg

Energy policy in Australia is an amalgam of state and federal responsibilities.

State governments have historically owned the generation, distribution, transmission and retail assets with the Commonwealth only since the late 1990s, with the creation of the National Electricity Market following the Hilmer Review, sharing responsibility for policy formation.

When COAG decides on energy policies that need to be legislated in Australia they go through state, not federal, parliaments.

There is a major exception, however, which relates to a more recent phenomena which is the Renewable Energy Target and the national response to climate change.

The Howard government introduced the first renewable energy target in 2001 with the current 23.5 per cent renewable energy target receiving bipartisan support at the federal level in 2015.

But now the position has become a lot more complicated as the Labor states and territories pursue their own higher renewable energy targets which are pushing electricity prices up, distorting market outcomes and undermining energy security.

Cases in point are the 50 per cent target for South Australia by 2025, 50 per cent for Queensland by 2030 and 40 per cent for Victoria by 2025.

The jury is in on Jay Weatherill's "big experiment" with South Australia having the highest electricity prices in the National Electricity Market while at the same time being the only jurisdiction that has had a state-wide blackout.

After being in office for 14 years, longer than Caesar ruled Rome, the South Australian Labor government can't blame previous Liberal administrations, state or federal, for their woes.

The danger is that Queensland and Victoria are now following suit. A situation which aptly invokes Albert Einstein's definition of insanity, namely doing the same thing over and over again but expecting a different result.

With Queensland today generating more than 90 per cent of their electricity from fossil fuels and only 4.4 per cent from renewables, its 50 per cent target will inevitably force the closure of some of Queensland's 10 coal-fired power stations and lead to higher prices.

Even the Queensland Government Expert Panel's draft report said "the closure of even one significant coal-fired generator would be expected to lead to higher wholesale prices".

But despite this, the Queensland government pretends that its policy is "cost neutral" and that all existing coal-fired and gas-fired power plants will continue to operate, happy to accept "reduced profit levels". A heroic assumption indeed.

No wonder the Grattan Institute has termed the report's conclusions "magic pudding economics" while saying that the state-based targets distort market outcomes for no environmental benefit.

Former Queensland Labor treasurer of seven years standing, Keith De Lacy, has also been critical saying that Labor's target will have "enormous ramifications for economic growth and living standards".

By the same token, Victoria, which for a long time had the lowest wholesale electricity prices in the National Electricity Market, is now pursuing under the Andrews Labor government a renewable energy target which will require a quadrupling of renewable generation in the state in less than a decade.

Victorian consumers are already reeling after energy retailers confirmed that electricity prices will rise for Victorian households by up to $135 this year following the closure of Hazelwood.

This is almost three times the increase predicted by the Victorian government at the end of 2016.

The Australian Energy Market Operator (AEMO) has also said that more than $2 billion in new transmission infrastructure will be required in Victoria under the state's renewable target but in reality this is just a fraction of the true cost which will be borne by consumers.

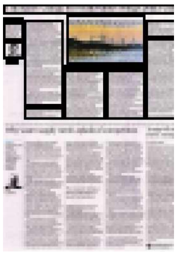
Like Queensland, the Victorian government has failed to explain what happens to the existing coal-fired generators under their target.

If, as expected, their experience follows that of South Australia, higher volumes of intermittent sources of renewable power – namely wind and solar – will push coal out of the system, and even further investment will be required to stabilise the grid. This might mean more interconnectors, more frequency control services and more expensive gas – which is extremely ironic given the Andrews government has a ban on unconventional gas development and a moratorium on conventional gas exploration and development.

If Labor states really wanted to show their constituents they cared about the rising cost of living and the fact that electricity prices have increased faster in Australia than any other OECD country in the years since 2007, then they would immediately abandon their unrealistically high renewable energy targets.

Now, more than ever, we need a co-ordinated federal-state approach to energy and climate policy. It starts with the states accepting that their ideologically driven renewable energy targets drive up costs and threaten energy security.

Josh Frydenberg is federal Minister for the Environment and Energy.



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There is little explanation on how a big rise in renewables fits into the rest of the energy mix.