
THE AUSTRALIAN

John Howard is right: recklessness and states' gas bans fed energy crisis

JOSH FRYDENBERG THE AUSTRALIAN 12:00AM May 15, 2017

Australia's second longest serving prime minister and my old boss, John Winston Howard, said last week that the looming energy crisis had been a major policy failure of the first order. He is right. How did Australia, with its unequalled reserves of gas, coal, uranium, solar and wind, find itself in a position of rising prices and a weakening, less stable system?

The answer is complex and the reasons are varied. But understanding and responding to the three major challenges we face is key to finding effective solutions.

First is the challenge of integrating more renewables into the grid. When in 1997 Howard told parliament the government would "set a mandatory target for electricity retailers to source an additional 2 per cent of electricity from renewable energy sources by 2010", he described it as an "action-orientated approach". With renewables, excluding hydro, at the time making up less than 1 per cent of the energy mix (compared to 9 per cent today) the Howard RET would, based on the demand forecast at the time, have seen an additional 9500 gigawatt hours of renewable energy by 2010.

It was coupled with other government announcements at the time, which included a renewable energy innovation investment fund, proposed efficiency standards for coal and gas plants, energy rating schemes for housing and appliances, new noxious emissions standards for vehicles, a national carbon counting scheme, new guidelines for reducing emissions via commonwealth procurement and the establishment of a commonwealth greenhouse office. As Howard said: "Although Australia contributes only 1.4 per cent of the world's greenhouse gas emissions, we want to play our part in meeting this challenge".

The Howard government later took to the 2007 election a "clean energy target, effectively requiring 15 per cent clean energy production by 2020". The CET would have required 30,000 gigawatt hours each year of low-emission energy by 2020 and "remove the patchwork of existing and proposed state and territory schemes". Howard's CET never eventuated as Labor came into office and recklessly extended the RET to 45,000 gigawatt hours before the Coalition in 2015 negotiated a reduction to a more practical level at 33,000 gigawatt hours by 2020, a figure that is comparable to what would have been the likely outcome of the combination of Howard's RET and CET targets.

The RET has created some challenges as it never priced in intermittency leading to a deficit of storage and frequency control and ancillary services necessary to stabilise the system. It is also indifferent to location allowing Labor states such as South Australia to recklessly overbuild renewables in pursuit of their own high targets without putting in place the necessary planning and storage backup. And the RET was originally set at a level that was based on rising demand, which never eventuated. This meant that thermal generation came out of the system faster than anticipated.

However, all that being said, it is now at a point where it has significantly boosted renewable energy investment and the 2020 target is well on track to be met. Indeed, some are estimating that the quantum of projects needed under the scheme could be reached very soon. The issue therefore today is how to integrate the rising penetration of intermittent sources of power, namely wind and solar, into the system without compromising affordability and stability. This is why the Turnbull government has taken steps to significantly expand Australia's pumped hydro capacity, and recommendations on other measures which could be taken to address this issue are expected in the Finkel review when it reports next month.

Second is the critical challenge around gas. A vital feedstock for industry, gas has also become increasingly important in setting the price of electricity. With the closure of major coal-fired generators like Hazelwood and Northern, gas is stepping in to meet demand. But with gas prices more than doubling in the last three years, the impact on electricity prices has been significant. With gas prices so high some gas-fired power plants such as Tamar Valley in Tasmania and Swanbank E in Queensland have chosen to close and others like Mortlake in Victoria have been running at less than half capacity, putting extra stress on the system. Gas shortfalls were not an issue the Howard government had to confront, as there was not yet a large LNG export industry on the east coast. Nor were the mindless state government moratoriums and bans on conventional and unconventional gas then in place.

John Howard is absolutely right in saying the restrictions put in place by the states have failed the public and should be lifted. It's simply untenable for a manufacturing state like Victoria to leave 40 years' worth of gas supplies in the

ground, and for NSW, Australia's largest state, to import 95 per cent of the gas it consumes.

This is why the Turnbull government is putting in place gas export controls and continues to press the states to develop their reserves, including putting aside millions of dollars in the most recent budget to accelerate gas - developments and undertake important geological and bioregional assessments of existing reserves.

Third, effectively integrating energy and climate policy is today's major challenge.

While the Coalition has over the years had its own differences of opinion, Australian politics has also been bedevilled by the Labor Party's more than a dozen different climate and energy policies over the past ten years - from their CPRS to the ETS to the Carbon Tax to

the EIS.

This unsettled policy dynamic over the last decade has had an impact on investment across all aspects of the energy value chain.

The Finkel and climate change reviews currently underway will no doubt put forward suggestions as to how the integration of energy and climate can better take place.

As we strive to meet our Paris target while managing the unprecedented level of disruption in the energy sector, addressing this challenge is a key priority for the Turnbull Government.

In 1997 when addressing Parliament then Prime Minister John Howard made very clear his government's commitment to tackling the critical issue of global warming in a way that was least cost and didn't compromise Australia's economic prosperity. John Howard then as he does today remains the gold standard in leadership and the motivation which guided his prime ministership still guides the Coalition today.

Josh Frydenberg is Minister for the Environment and Energy.

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