# Forced emission reductions entrench high electricity prices

Illustration: Eric Lobbecke

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The Australian
12:00AM December 21, 2016

Significant economic consequences are foreshadowed by several - reports into the electricity industry that were presented to this month's meeting of federal, state and territory energy ministers. Two of those reports addressed issues stemming from Australia's ratification of the Paris Agreement on climate change.

One of these, The Future Security of the National Electricity Market, was from a group chaired by Chief Scientist Alan Finkel. The other, The Integration of Energy and Emissions Reduction Policy, was prepared by the Australian Energy Market Commission.

The key feature of the Paris Agreement was the pledge by Australia and other developed countries to reduce their greenhouse gas emissions by 26 per cent to 28 per cent by 2030.

Developing countries, which account for a growing 65 per cent of global emissions, have no effective restraints.

Australia ratified the Paris Agreement on the day after Donald Trump's election victory. The president-elect has pledged to walk away from the agreement, an outcome that would transform it from largely ineffective to totally ineffective.

Malcolm Turnbull, however, wishes to push ahead in forcing emission reductions.

But his plans hit a road bump with the release of the draft report from the Finkel committee, which recommended controls over future emissions by using a form of carbon tax. When, under media questioning, Energy Minister Josh Frydenberg acknowledged this, a backbench revolt required Turnbull to remove it as a policy option.

The same form of carbon tax was canvassed by the AEMC as a means to achieving the planned reduction in greenhouse gas emissions. The AEMC costed the measure at $55.4 billion. If, instead, the emission reductions were to be achieved by using a variation of the renewable energy target, these costs would increase to $66.6bn.

Either way, especially in view of the US position, the emission reduction policy is up there in profligacy with two other government spending follies: the National Broadband Network and the submarines.

More immediate energy-related issues concern the ambitions of Victoria and Queensland to follow South Australia down the renewable path.

Electricity from renewable energy costs three times as much to produce as electricity from coal and gas. For this year, the AEMC estimates the cost of existing federal and state renewable energy programs for the average household's electricity bills at $191 in Queensland (7 per cent of the bill), $109 in NSW, $91 in Victoria and $155 in South Australia.

But these are only the direct costs. The indirect costs, in addition to renewable energy's innate unreliability, are greater.

In the first place, this is because electricity market rules mean wind and solar will always run when they are able to do so. This forces other suppliers into stop-start operations, which coal and gas baseload power stations cannot easily accommodate. Those stations are being forced to close and each such closure ramps up the wholesale electricity price.

The AEMC estimates that next year the closure of Hazelwood in Victoria will cause a cost increase of $200 for each household in the state, with fewer cost increases in other jurisdictions.

Second, wind generators require increased network spending. The electricity market operator has put a $2.2bn cost on new transmission

lines to link Victoria's proposed wind generators to the grid. This stems from the wind generators wanting to locate in areas where there is weak transmission capacity.

Originally the national electricity market rules required new generators to pay for any additional transmission costs their location entailed.

But those sensible rules have gone by the board, hence the costs will be charged to consumers. They amount to about $50 a household a year (and much more than that for businesses).

Third, the AEMC has foreshadowed additional costs, which it is unable to quantify, because of a new back-up power fund to provide system stability to cover wind and solar power's intrinsic inability to offer the same flexibility as the fossil-fuel generators they displace.

Compounding these problems are the measures introduced in NSW and Victoria (and prospectively under a future South Australian Liberal government) to ban or restrict the search for gas.

Households and industry are paying a high price for political meddling reacting to vociferous environmentalists' pressures and the patronage of renewable energy businesses.

Australia has gone much further than any other country with green energy cost impositions.

At the turn of the century, competition reform and privatisations had brought us the world's cheapest electricity. This has been undone. American and French consumers now pay little more than half our average price and even Japanese households, in a country with negligible domestic energy resources, have electricity cheaper than Australians.

Australia's low prices were also the attraction for energy-intensive industries, and the news foreshadowing the departure of the Portland Alcoa smelter makes that facility the latest casualty of the nation's politically induced loss of industry competitiveness.

Sadly, none of the reports before ministers offers a return to the low prices households once enjoyed.

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