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Yes, the energy system is broken – but because of ministers, bureaucrats and regulators rush to renewables

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Kerry Schott, head of the Energy Security Board, the most senior of the dozen or so Australian regulatory bodies, is scolding state ministers for trying to "speed up" what she sees as an inevitable transition to renewable energy.

Schott's focus on state interventions is a response to the new assertiveness of state government in providing renewable subsidies through power purchasing agreements with renewable suppliers and forcing vast increases in expenditure on transmission and on-grid management.

But for 2018/19, as shown below, state government subsidies to wind and solar were dwarfed by those from the Commonwealth.
Commonwealth regulations — $3087 million
Commonwealth spending — $2418 million
State regulations — $951 million
State spending — $457 million
TOTAL — $6913 million

The subsidies are directed to weather-controlled sources of electricity that account for one fifth of supply in a market that without the subsidy would turnover $10 billion a year. These renewable subsidies, therefore, add 70 per cent to total market costs.
Coal generators, which account for over 60 per cent of supply, receive no subsidies — indeed, coal faces an actual penalty because it is taxed through state royalties.

Schott, by arguing that the "ageing fleet" of coal-fired generators is declining in competitiveness against wind and solar, thereby demonstrating herself to be utterly clueless about the industry and its economics.

As well as a cost to electricity consumers and taxpayers, the subsidies have created the parlous reliability conditions about which Schott is now, belatedly – ironically — warning us.

The Commonwealth's renewable energy regulations comprise a scheme for grid supplies (wind farms and large scale solar) and one for rooftop supplies. Both currently provide a subsidy of around $40 per MWh, which is the equivalent of the wholesale price that these supplies also receive. Without the subsidies not one windfarm or solar farm would have been constructed; and the subsidies halve household rooftop solar facilities' costs – without them we would see few of the two million installations presently in place.

The $2.4 billion in Commonwealth direct spending on subsidies is dominated by the loans from the Clean Energy Finance Corporation (CEFC), the costs and commitments of which were $1526 million last year.

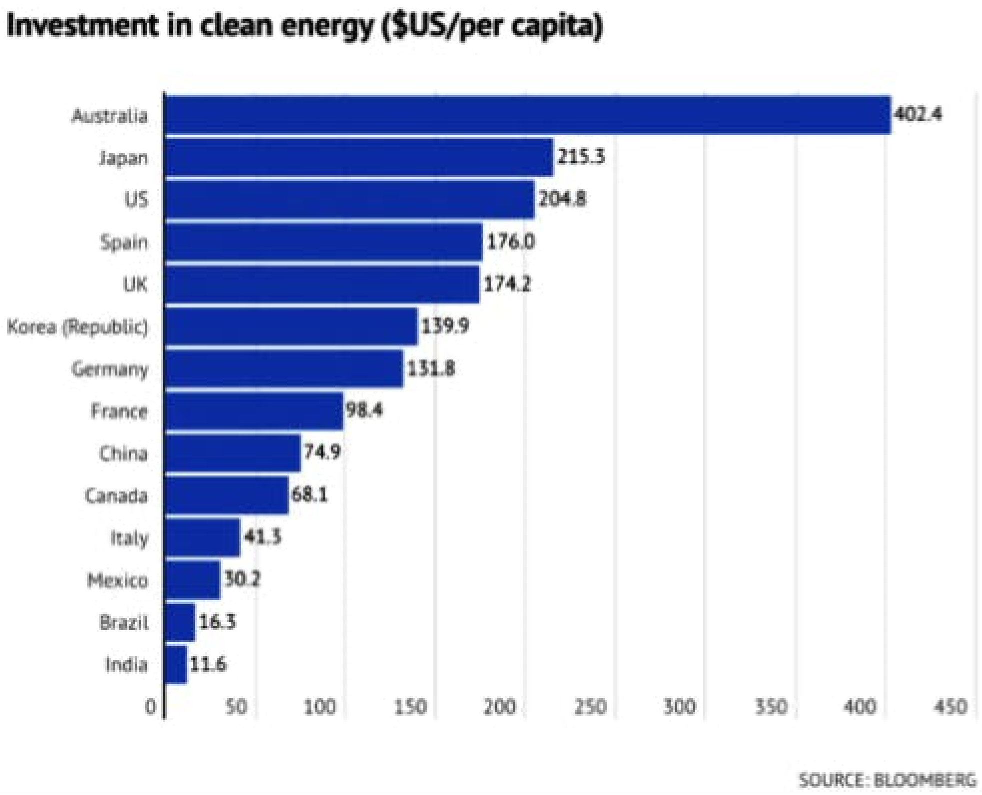
Now, the CEFC itself is attracting attention.
Buried away over the Christmas period, The Australian in an article and editorial drew attention to adverse findings on the CEFC by the Commonwealth financial watchdog, the Auditor-General.
These included the damning conclusion, "The CEFC has not yet met the target benchmark rates of return set by the Investment Mandate and does not have a strategy in place to meet them."
For its "core" portfolio, (non-core being a fund for speculative technologies) the CEFC's shortcomings are illustrated below.

	2015–16	2016–17	2017–18	2018–19	2019–20
Bench mark	5.95% – 6.95%	5.74% – 6.74%	5.51% – 6.51%	5.39% – 6.39%	5.28% – 6.28%
Actual	4.65%	4.50%	4.44%	5.27%	4.75%
Difference	-1.30	-1.24	-1.07	-0.12	-0.53

However, the Auditor-General's assessment misses the central issue, which is the wasteful nature of the CEFC's investments. In its performance, the CEFC makes a profit on the funds it borrows from the government, demonstrating a professional competence. It claims the benchmark is set rather high, a view expressed by consultants Bishop and Officer back in 2015, but CEFC has made money in a strict accountancy sense.

The real detrimental effects of the program are that it is a subsidy to outlays for assets already in receipt of a subsidy and that it amplifies the deleterious effects of this by sucking in other capital for these malinvestments.

CEFC provides loans to subsidised green ventures at rates that, by definition, the recipients regard as preferential to those available from commercial entities. This is a further waste of taxpayers' money.
But this cost is compounded by the additional funds that the CEFC claims to have brought into the ventures it finances, funds that are estimated to be 2.33 times as great as the CEFC's own investment.
The Auditor-General, rather than expressing disquiet about this waste, was critical that the CEFC did not do rather better and drawing attention to overseas funds that did so.
Yet the plethora of subsidies to renewables has led to Australia's cannibalisation of investable income, thereby vastly outperforming other countries in its "clean energy" expenditure, as illustrated in the chart below.



The dozen or so agencies that comprise Australia's regulatory community have redirected national capital into investments that have boosted the cost of electricity, reduced its reliability and brought about a bureaucratic and political level of control that undermines efficiency.

This political and bureaucratic control has driven us into a cul-de-sac in which the world's lowest cost most efficient electricity supply system has been destroyed. There is not an easy way out.

Alan Moran has authored chapters on Australian energy in five international compendiums as well as the energy chapter in the recently released "Keeping Australia Right". His latest book is "Climate Change: Treaties and Policies in the Trump Era".