

FLAT WHITE

Chris Bowen is trying to lock Australia into a Net Zero future

The longer Labor is in power, the harder it will be for the Coalition to unpick renewables from the grid

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Getty Images

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On Wednesday, Energy Minister Chris Bowen used a National Press Club address to announce another subsidy scheme for renewable energy.

This was intended to cover factory rooftop installations of solar panels, bringing them into the Small-Scale Renewable Energy Scheme (SRES) that applies to household rooftops.

It is a scheme that provides a subsidy paid by other consumers (but not the aluminium smelters) for up to \$40 per megawatt-hour of the energy price. The subsidy is paid up-front based on the notional value of the electricity over the installation's life. Introduced in 2011, it has long been considered one of the least useful subsidy measures. **Indeed Rod Sims**, who served as Chairman of the ACCC, later recommended its early scrapping largely because it unfairly forces mainly lower-income people to pay the subsidy. The Coalition considered taking that course in 2019 (when Angus Taylor was Energy Minister) but declined to do so due to the scheme's apparent popularity in the Liberal Party room, **It has been estimated by a key lobby group for the extension, the Smart Energy Council**, that the uptake will be 1.5 gigawatts per year over the next 20 years. Mr Bowen, in his announcement, estimated the benefit (i.e. cost to other consumers) at \$68,000 for a typical 250-kilowatt installation. This puts the annual cost at \$408 million.

Labor wants to introduce as many measures as possible to lock-in a future Coalition government to a Net Zero, end-coal agenda. That agenda has been flagging due to a number of reasons. These include the rising cost of new large-scale facilities, which even with (undisclosed) subsidies under the government's Capacity Investment Scheme, cannot reach commerciality, grass-roots opposition to the necessary transmission lines, and declining household rooftop installations.

The decline in household installations is partly due to saturation (44 per cent of houses now have solar panels) and partly due to the diminished advantage following reduced subsidies for exported power and a daytime supply glut resulting from the program, which has created negative prices when the sun is shining.

And while yet another subsidy for renewables will further restrict the market for coal, the scheme's most important impact may be on existing grid-scale solar facilities, many of which are constrained off-line due to weak transmission links or voluntarily shut down when daytime surplus supply drives negative prices. The accelerated transmission roll-out is vital to offset this.

Of course, the market distortions resulting from an ever-increasing level of subsidies designed to eradicate coal (and reduce gas to a supporting role) have led to prices that increase in a saw-like pattern. Many new subsidies bring a fall in wholesale prices (not in retail prices for subsidies like the SRES, which are financed by a levy on wholesale prices). This is inevitably followed by price increases as the cheaper coal is replaced by renewables. And each new increment of renewables adds to the precariousness of a system with less resilience than systems dominated by coal, gas, nuclear, and hydro, whose supplies can be controlled. Australia's electricity prices, once among the world's lowest, are now 30 per cent higher than the average US prices.

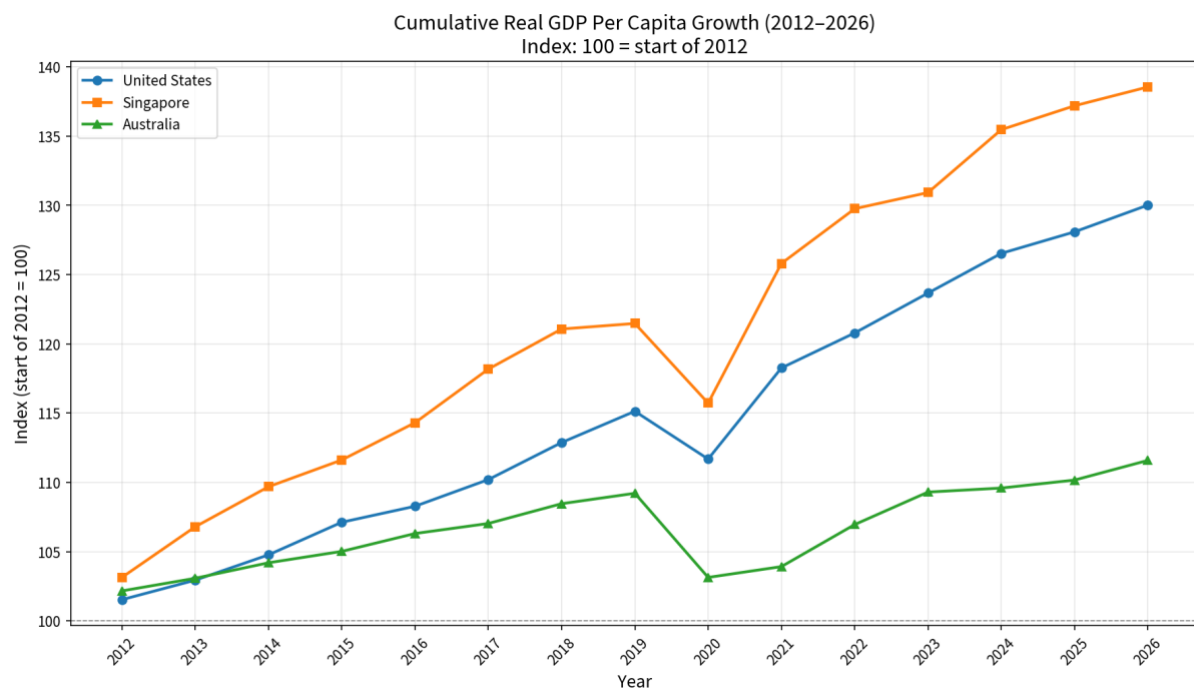
The latest subsidy brings my estimate of the annualised level of subsidies to renewables to over \$19 billion a year. The flagship is the \$85 billion Capacity Investment Scheme. This, based on its similar UK scheme (the subsidies for which, unlike in Australia, are made public), costs consumers some \$7 billion a year.

Subsidies to renewables (\$ million per annum)		Annual
LRET 33,000 GWH times \$7 per MWh.		\$231
SRES 26 million to be surrendered this year times \$39.95		\$1,039
Factory rooftop 1.5GW/year; 6000 250 kw systems at \$68,000 subsidy		\$408
Batteries \$1,800 million per year (now \$7.2 billion over 4 years)		\$1800
Safeguard Mechanism: 30 % emission reduction for the top 215 firms by 2030		\$906
RERT, FCAS and system security		\$400
Clean Energy Regulator		\$750
State Schemes (2019)		\$1,408
Capacity Investment Scheme \$85B investment by 2030 (\$13B per year) 55 % of costs to consumers		\$7,150
		<i>\$14092</i>
Long term (assume 15 year annualised exc. HH and other Future Made in Australia)	Total	Annualised
· Hydrogen Headstart	\$8B	\$900
Other FMA Batteries, solar and NZ tech	\$4.8B	\$488
· Expansion of transmission from \$23B to \$100B	\$77B	\$510
· CEFC	\$2.69	\$40
· ARENA Based on annual Report: Govt Grant expenses + admin		\$231
· Snowy 2	\$42B	\$2800
		Total \$4969
GRAND TOTAL	\$19061	

The aggregate \$19 billion annual cost of renewable subsidies is equivalent to almost 20 per cent of private capital investment. Much of this is chasing now largely discredited supposed breakthroughs like green hydrogen. All of it is designed to replace low-cost, reliable supplies

with higher-cost, intermittently available electricity. And in addition, the subsidies divert, as intended, private capital towards activities that constitute not simply waste but destruction of genuinely productive capital.

This has been a major contributor to Australian per capita income levels falling short of the growth seen in Singapore and the US – nations that had similar per capita income levels to Australia in 2012 are now respectively 25 per cent and 20 per cent better off.



The deterioration in the Australian economy is gathering pace. With the lower standard of living that policies on climate and other government interventions comes a decreased capability to defend ourselves in a world that is becoming increasingly precarious.