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Broken promises, broken budgets

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22 April 2024

In December 2021, Anthony Albanese announced his 'plan' to reduce electricity prices by $275 per household by 2025. He said he was certain of such a price reduction, 'because we have done the modelling'. According to Selectra, the average bill was $145 higher in March 2024 than in November 2021.

Government measures are targeted at the ‘energy transition’ to Net Zero emissions of carbon dioxide by replacing coal and gas with wind and solar. As a result of this support, renewable energy is forcing low-cost coal capacity out of the market. But rather than producing benefits from what politicians tell us is the lowest cost form of electricity, the wholesale electricity price has risen to over $100 per MWh from under $40 per MWh in 2015.

Direct and regulatory support for renewables (wind/solar) comes to at least $15.6 billion a year. That is equivalent to an annual cost of $1,510 per household in excessive electricity bills and taxes that subsidise wind and solar. The support for wind and solar has been markedly increased by the Albanese government. That support falls under two main categories.

The first requires electricity retailers to source increasing amounts of their energy from intermittent wind and solar, and there are associated regulatory costs of administering this. The second is support for new transmission lines and energy storage in an attempt to firm up the intrinsically unreliable wind and solar system (planned to comprise 75 per cent of supply by 2030 rising to over 90 per cent).

These are conservative numbers, since they exclude:

- Many state measures, which are now difficult to estimate because the Australian Energy Market Commission no longer compiles them, claiming it will instead concentrate on ‘modelling’ the various costs. State measures have markedly increased since 2019 and include government purchases of ‘green’ energy at premium prices, favouring wind and solar by not requiring the posting of land remediation bonds and, in the case of Victoria, punitive coal royalties.

- The additional costs of local distribution lines and the behind-the-metre facilities (like household batteries) that will be required to support the 'energy transition'.
- The subsidies' effect of directing otherwise productive capital into wind and solar ('rather than crowding out capital' says Ian Learmonth, CEO of the government's green bank, the CEFC, 'we are crowding capital in').

As well as creating high electricity prices, companion measures have led Australia to forfeit its previously advantageous natural gas prices. Both domestic gas and electricity prices in Australia only ten years ago were comparable to those in America and among the lowest in the world. Today our electricity prices are 70 per cent above those in America and natural gas prices are four times higher. Australia has seen state governments banning gas fracking technology and weaponising environmental laws against gas – in NSW, Santos started its Narrabri project in 2011, commenced its approval process in 2014 and still won't produce gas this year; in addition to preventing gas developments, Victoria has prevented a gas import terminal, a tit-for-tat for the Commonwealth's use of environmental laws to prevent offshore wind.

Much of the cost of regulations are paid initially by businesses and some of these costs are being passed on in a far more damaging way than that represented in dollar sums. This is because of knock-on effects of higher energy prices and lower reliability caused by the adoption of renewables is bringing a closure of energy-intensive manufacturing, including aluminium and nickel smelting. And last week higher energy prices brought the loss of Qenos, which claimed to be 'the only company in Australia with the know-how and capability to convert lower value gases into high-quality polyethylene and resins'.

The malaise caused by government policies to these energy-intensive businesses is reflected in lower competitiveness in general. It comes as Prime Minister Anthony Albanese launched the government's 'Future Made in Australia' manufacturing policy. This sees more interventionary policies as the antidote to correct the deindustrialisation caused by previous such policies. And Mr Albanese has derided as 'flat Earthers' those – comprising just about every respected economist in the land – who have cast doubt on the government's ability to pick winners for selective support.

But, unless there is a change of course, the deindustrialisation process will continue. Changes are usually painfully slow. In the case of energy, polls generally show some concern about climate change and strong support for renewables about which there is a general conviction that they are reliable forms of energy. Politicians and many businesses have invested heavily in demonising coal and gas and, even with evidence of escalating prices, look more likely to double down on their bets rather than seeking an exit strategy.

All this would change if Donald Trump is elected in November since Trump would resume his previous unravelling of renewable energy policies, thereby placing pressure on Australia and other first world countries to follow a similar path.