

Retrieving Australia's energy policy disaster

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Australian governments are in denial but it's clear that the great green revolution they planned for energy supply has failed abysmally. Supply has become precarious and electricity prices to households and commercial users alike are skyrocketing. This is threatening the ongoing viability of industries like nickel and aluminium smelting where energy accounts for a third of the costs.

Rather than abandoning the folly of an energy policy dictated by ideology and bereft of industry knowledge, governments are responding with ever more market interventions. These attempts to remedy the adverse effects of the interventions already in place will aggravate the economic injuries.

Federal and state government measures impose a cost on energy customers of \$10 billion per year. These measures include regulations plus direct spending on wind/solar and the costs of system management, transmission, and battery support to counter their poor reliability.

New programs are constantly being announced. But anyone who thinks the government can accurately forecast the costs of these should recall that its original announcement to convert the Snowy system into a pumped hydro storage had a price tag of an estimated \$2 billion – that has now grown to \$20 billion.

Among Canberra's more recent new initiatives is the Capacity Investment Scheme (CIS), which is to provide further direct assistance to wind and solar and for battery storage to combat the shortcomings of those electricity generation sources. The government said this policy would 'unleash' \$10 billion of investment. Even renewable-friendly voices suggest the CIS will cost the taxpayer over \$30 billion out of a \$50 billion national spend. Others estimate that a minimum of 7 days of storage is required and that the forced abandonment of the existing coal facilities will require at least 3,600 GWh of battery storage at a cost of \$1,800 billion (\$500M per GWh) and that would need replacement every 10 years.

Placing these numbers in perspective, replacing Australia's 21 gigawatts of existing coal plant – which supplies over 60 per cent of

electricity – would cost \$3 billion per gigawatt or \$63 billion with no need for battery backup or additional transmission. The existing coal plant actually provides some 13,000 GWh of storage.

A previously unanticipated subsidy is the compensation to coal generators as a result of the Ukraine War's effect on global energy prices.

Compensation for generators' additional coal cost is estimated at \$1.85 billion. In previous years, reimbursing such costs would have been out of the question. Moreover, any additional costs would have been modest until recently. This is because coal generators were (and mainly remain) co-located with coal mines. Victorian brown coal is non-transportable and, being abundant, its costs remain insulated from international energy prices. But NSW and Queensland black coal used by Australian generators is also largely untradeable as it is mainly of a lower quality than that required by overseas generators.

Moreover, most generators were either commonly owned or closely contracted to their coal source. Those using coal that may have export potential are Eraring and Mount Piper in NSW and Gladstone in Queensland. Gladstone is half-owned by Rio Tinto which, seemingly under pressure from Woke politicians and shareholders, sold its mines. [Rio](#) declared that this delivers 'exceptional value to our shareholders' and it would surely be double-dipping if it also received compensation for what, in retrospect, was a poor commercial decision. However, if unreimbursed, Rio would shut the Boyne Island aluminium smelter in an act that would reveal the enormity of the government-induced energy policy disaster (with a state election looming).

Energy-intensive industries like smelting were originally attracted to Australia in the wake of oil price hikes 40 years ago and most industries received a fillip in their competitiveness because Australian coal was insulated from cost impacts from the global increase in oil prices. Political actions have changed all this and energy-intensive industries are now being kept open only by a mounting series of ad hoc subsidies to counter the adverse impact of the very subsidies governments themselves have put in place.

The fact is that the electricity and gas industries are now totally under government control and subject to the associated political whims and inefficiencies. Governments have conspired with others to create the myth of cheap wind and solar, while traducing the superiority of coal (and gas and nuclear). The impetus for this were ill-founded concerns about climate change and a conviction that Australia could prevent this by closing down coal (and gas) at little or no cost. Instead of allowing that belief to be tested in a market, governments tilted the playing field thereby destroying the nation's comparative advantage.

Politicians are now discovering the economic and, above all, political penalty being incurred in terms of overpriced energy.

To restore past efficiencies, a start would require removing all energy subsidies, discriminatory requirements, and restraints on new power stations (including nuclear – though for eastern Australia, given the fabulous low-cost coal and gas resources, this is unlikely to be commercial). Sadly, such a hands-off policy approach is anathematic to most current politicians who, like supporters of full socialism, attribute past political disasters to their predecessors' failure to do it properly.