SPECTATOR AUSTRALIA

The politics of an energy dystopia

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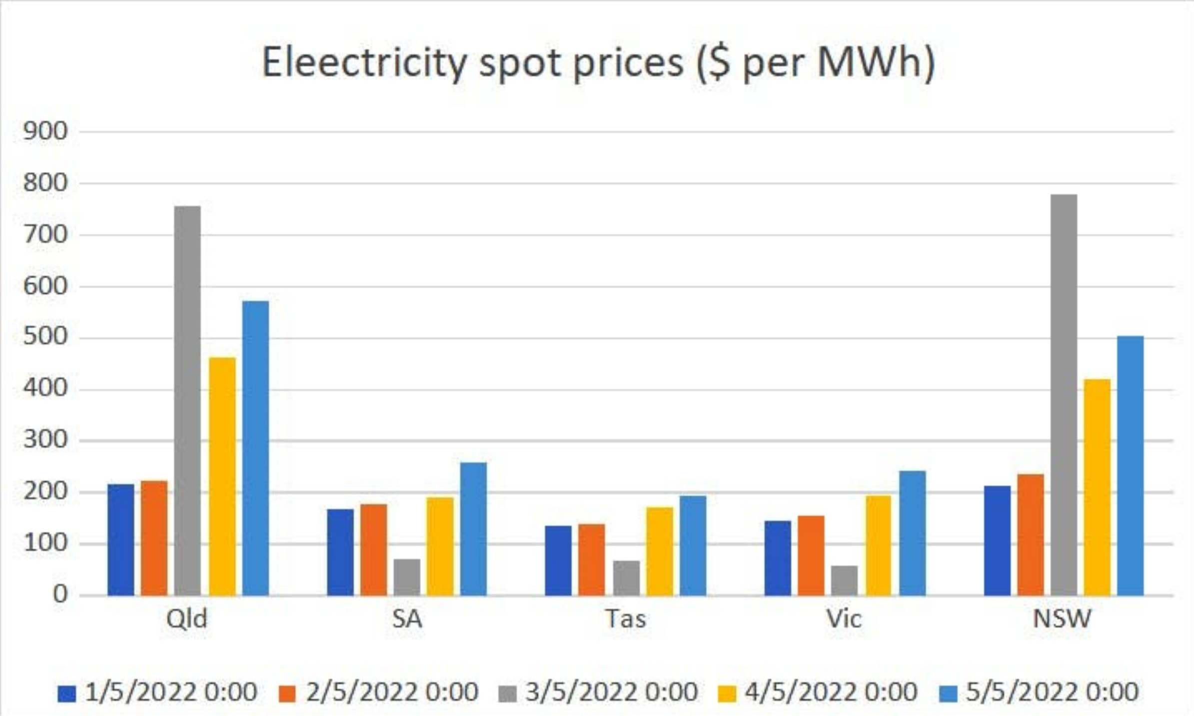
We are seeing unprecedented prices in the Australian gas and electricity wholesale markets.

The first five days of May saw electricity prices average over $400 per MWh in Queensland and NSW, and over $150 per MWh in Victoria and South Australia. Compare this with the historical average daily prices of $40-$80 per MWh.

Forward electricity prices for 2023 averaged 122 per cent higher than in 2021.



In the case of gas, present prices are about $20 per Gigajoule in Sydney and Brisbane and $26 in Victoria. These prices compare to around $4 per Gj 10 years ago, rising to $10 pre-Covid and falling to $6 during Covid.

Gas prices would be even higher but for a lack of shipping capacity. Although the ACCC has a faulty methodology for estimating gas export costs (it assumes all but the incremental port and shipping costs are already accounted for), on the basis of Asian prices it estimates the Australian gas price should be $40 per Gj. Longer term, the cost of transporting gas overseas is about $5 per gj which defines the expected cost advantage that Australian users should achieve when capacity bottlenecks are cleared. That would mean Australian gas prices at something approaching the $5 -6 per Gj prevalent in America – always providing that governments cease preventing exploration for and development of new gas finds.

Even though gas prices are currently lower than they might otherwise be, the increase that we have seen has been a major factor in lifting electricity prices in spite of gas being a minor source of electricity generation. High coal prices overseas would also have some effect in driving up domestic prices. This is despite most domestic thermal coal being of a lower quality than that exported (and Victorian brown coal cannot be exported). Diversion of coal to export markets coal would, like gas, also be constrained by port and shipping availability.

A larger factor is unplanned outages which currently affect seven of Australia's 47 coal generator units. One likely cause is a stinting on coal generators' maintenance resulting from subsidies to their wind/solar competitors that make them unprofitable. Without those subsidies, running at $7 billion a year instead of their market share of 20 per cent, wind and solar would have no presence in Australia. Heightening these problems are coal shortages stemming from regulatory barriers and the hostility of woke financiers to new mines and mine expansions.

The global effect of subsidies to renewables and other elements of Western governments' 'war on coal' is being revealed by the Ukraine crisis taking place just as global energy demand is recovering from Covid lockdowns. Prices of gas and electricity have skyrocketed. Green-oriented Europeans are promoting a doubling down of renewable energy subsidies as the solution. More pragmatic elements are damping down on Climate Change rhetoric and seeking to keep coal generators operating and (in the case of France) return to a nuclear path.

Energy and environment policy is the crucible within which the politics of the present election campaign is being conducted. The

Coalition is positioning itself as optimally timing the closure of domestic coal and gas usage to reach Net Zero emissions by 2050. Ranged against it is an assembly of Simon Holmes a Court's Teals, the Greens, and the ALP all promoting a faster pace on this road to this economic cataclysm.

Australia's choice of lesser and greater energy policy evils takes us along the path already blazed by the UK and Germany, both of which have higher renewable energy shares than Australia.

As the Global Warming Foundation's Benny Peiser informed us, the adverse effects of the UK's war on fossil fuels had been suppressed by price controls. But these controls were bankrupting the whole industry and prices doubled last month when the lid was finally removed. Prices are set to rise another 50 per cent by November, meaning UK consumers will face a threefold increase in average bills this year.

Australia faces similar if lesser issues. Once the average 122 per cent wholesale energy price increase, evident in forward prices, is passed through a near 50 per cent increase in household retail prices will be seen – and a much larger increase will be faced by businesses, enough to force the closure of smelters and other energy-intensive industries already suffering from energy costs. With an ALP government we would see additional measures, including forced reductions in emissions for the top 215 energy users and the costs of a $78 billion fourfold expansion of the electricity transmission network to accommodate wind and solar.

Compounding this misery is the inevitable increase in mortgages as interest rates are lifted from their near-zero levels and increased taxation to cover budget deficits. It will be a rough few years until political sanity is restored.