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FLAT WHITE

Will this be the summer of Daniel?

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Pexels

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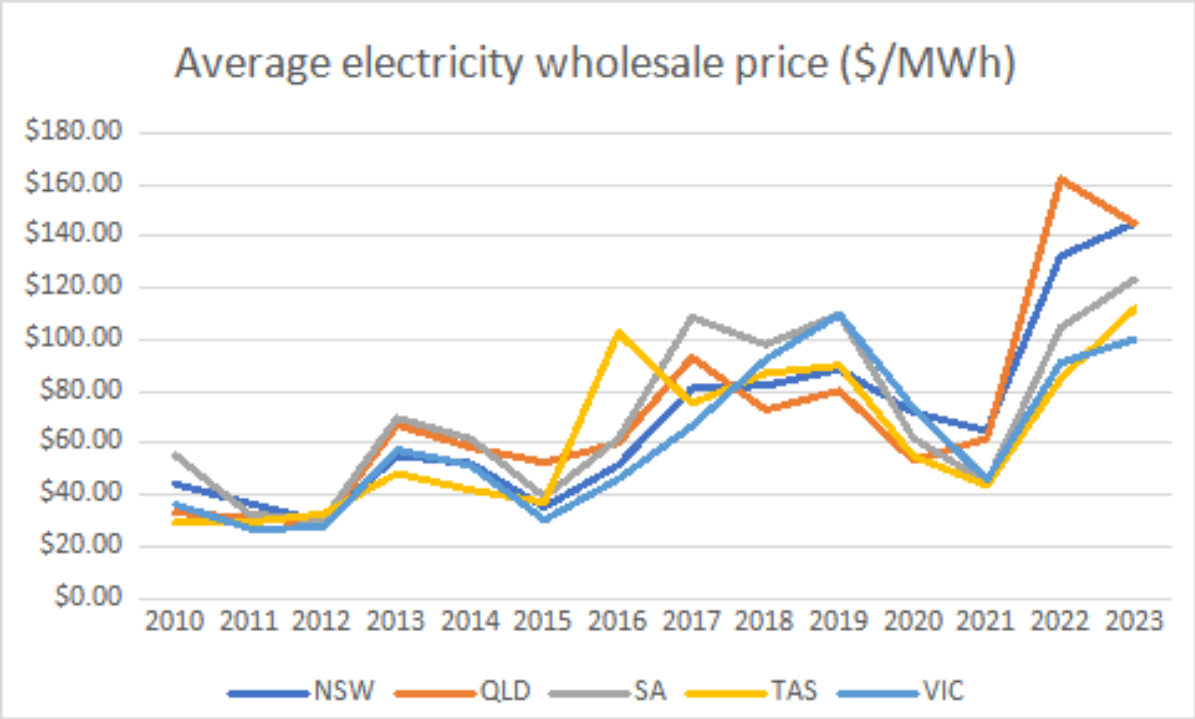
'Wholesale electricity prices on the East Coast have halved from 2022 levels, reflecting the increasing role that low-cost renewables are playing in daily generation,' announced an excited AEMO press release, citing comments from chief Daniel Westerman.

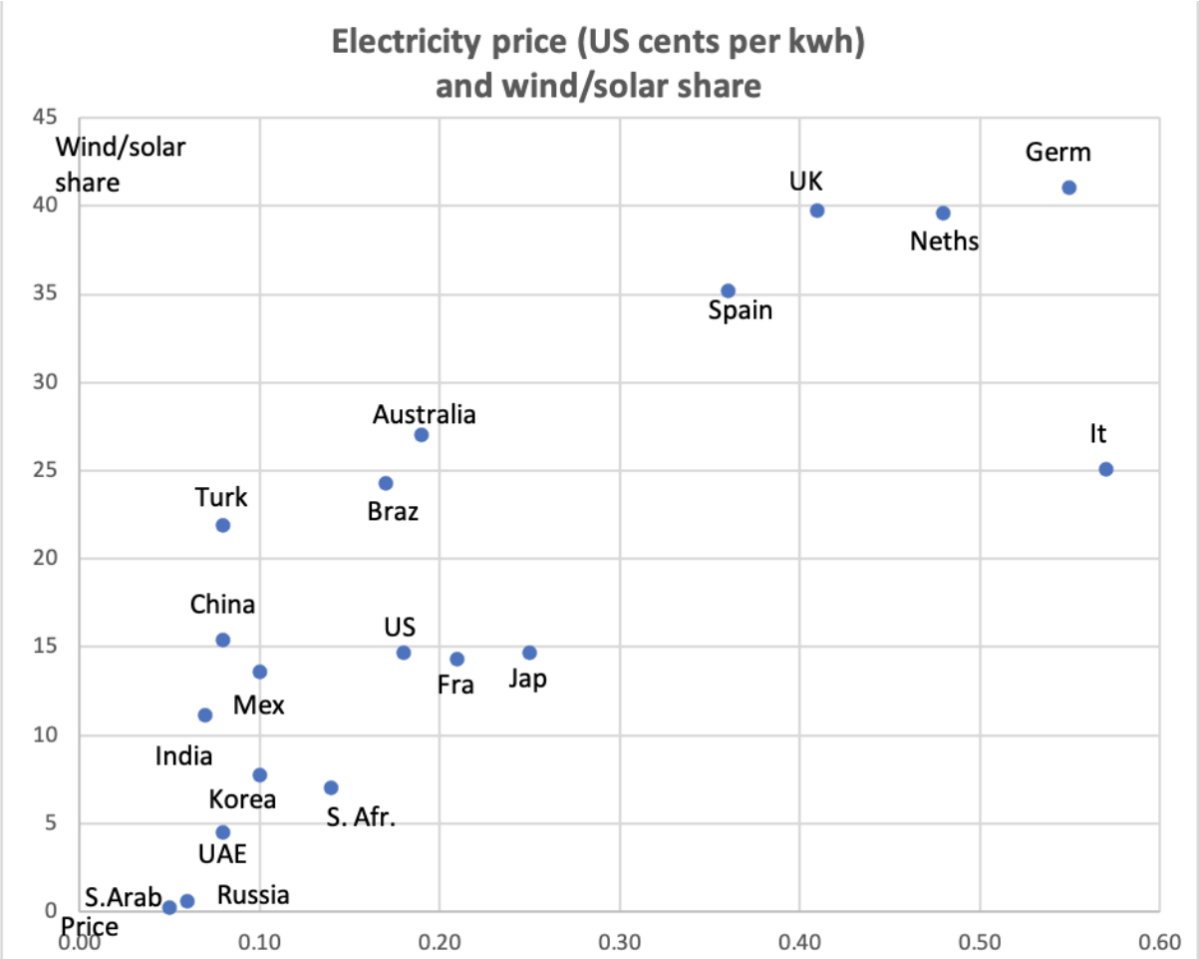
But hold the front page!

Just to confirm that 'one swallow a summer does not make', the average 2023 price was around $120. That's three times its level in 2015, which is the year before it became evident that the subsidies to renewables – now costing over $10 billion a year – had destroyed Australia's low-cost coal-based electricity supply.



Source AEMO

AEMO is signalling that after years of rising prices – punctuated only by Covid-induced demand reductions – we have turned the corner due to alleged low-cost renewables displacing those dinosaur coal generators. This is a familiar theme of the energy regulators, who have treated each price increase as a hiccough soon to be reversed. But, as AEMO's data demonstrates, the greater the proportion of renewables has been accompanied by surging prices. As well as the long-term Australian trend, this association is corroborated by inter-country comparisons.



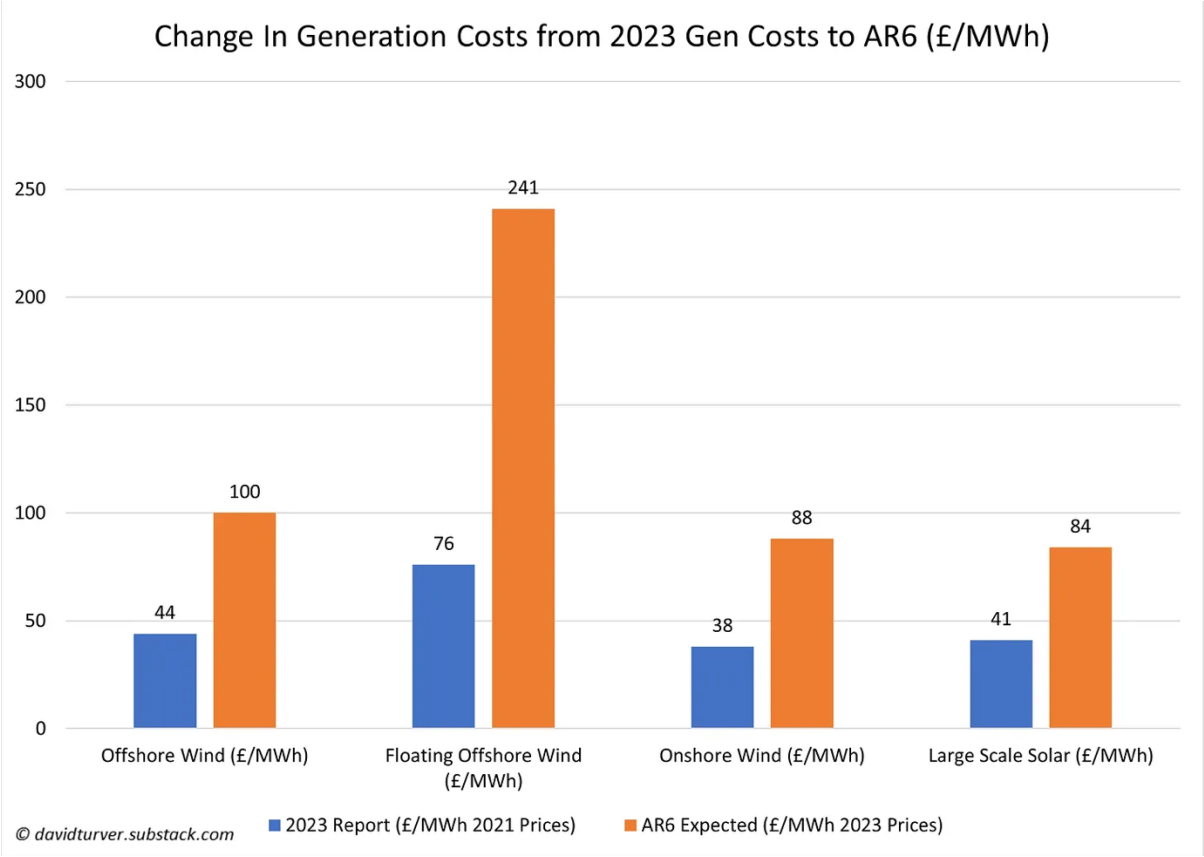
In its rhapsody for renewables, AEMO notes that '20 per cent of dispatch intervals across the NEM registered negative or zero prices'.

Negative prices are always featured in the electricity market as generators powered up in low price periods to be ready for daily demand increases. But current levels are unprecedented. For the renewable suppliers, negative prices are cushioned by the subsidies they receive ($46 per MWh as at January 26 2024). These have been given further fillips by governments, including the Capacity Investment Scheme, which requires the top 215 facilities to reduce their emissions by 30 per cent over-and-above other businesses' obligations by 2030. And its effect is likely to be compounded by pressures from the proposed mandatory climate disclosure regime. Major energy consumers like RIO's Boyne Island aluminium smelter

have already been forced to write off their capital value; Boyne Island management is now desperately struggling to replace coal with solar, an attempt that is doomed to failure.

Coal generators have no system-wide relief from negative prices. They must therefore operate unprofitably and close – that is unless they are kept alive, as with Victoria's Yallourn, by subsidies that compensate them for the effect of subsidies received by their competition!

The notion that wind and solar are low-cost is driven by self-interested or idealistic analysts. Such counterfeit estimates are being mugged by reality. In the UK, lowish cost estimates of wind and solar were proven to be fanciful once real-life bids at the end of last year showed costs were at least double those estimated by 'independent' government reports.



As for Australian negative prices (which are, of course, massively overshadowed by high price events when wind and solar cannot operate), for AEMO, 'This represents a great opportunity for Australia's energy market. With the right energy storage, like batteries and pumped hydro, the benefits of free and low-cost energy can be spread further across the day.' All true but all at additional costs to consumers – think the $20 billion for Snowy 2 and the $100 billion in otherwise unnecessary transmission lines!

Those costs fade into near insignificance compared to the full costs of the 'transition'. Estimates for this range from $9 trillion over 3 decades from the pro-renewables Net Zero Australia to that of WattClarity's Paul McArdle, who showed that even under ideal conditions to firm up Net Zero would require 70,000 Hornsdale Tesla batteries. This would entail a cost of $630 billion (30 per cent of GDP) each year!

With the appointment of Greg Combet, a former Minister for Climate Change and Energy Efficiency in charge of the Future Fund, the government has installed a Net Zero enthusiast with responsibility for some $270 billion in superannuation savings. Mr Combet, as chairman of the Net Zero Economy Agency, has backed using the nation's $3.5 trillion in retirement savings to fund the energy 'transition'. He is likely to, as the Commonwealth Government doubtlessly intends, divert previously productive funds into green energy, thereby further undermining the economies' energy capabilities and diluting the nation's capital productivity.

The task is too great even for the Future Fund's treasure trove but watch as its value withers away alongside the productivity of the nation's capital.