

TITLE: The big freeze for green energy

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Tony Abbott came to office promising to restore confidence to the economy and to deliver business certainty. But while he hasn't wavered in his determination to repeal the carbon price, his equivocation on his election promise to maintain the Renewable Energy Target (RET) is delaying investment, driving up electricity prices and causing the kind of sovereign risk he once blamed the mining tax for.

The RET was first created by John Howard, then significantly expanded by the Rudd government. The policy is designed to provide certainty on the minimum level of demand for renewable energy by requiring electricity generators to purchase 41,000 GWh of renewable energy by 2020. Once the government has set the target, it is up to the market to determine the cheapest way to meet it.

The private sector has almost universally decided to invest in wind.

The RET works similarly to an emissions trading scheme – by governments setting quantity targets for pollution and letting the market pursue least cost abatement.

Just as the viability of any emissions trading scheme is founded on the market's confidence that the government will stick to its emissions reduction targets, so, too, is the viability of the RET based on the government keeping to its word.

Unfortunately for those who have invested billions in wind, and for those who buy electricity, the Abbott government is causing the market to lose faith in both the previous government's legislative commitments, and promises the Coalition made in opposition.

Just over a year ago shadow environment spokesman, Simon Birmingham, said of the RET that 'the Coalition supports the current system, including the 41,000 gigawatt hours target'.

In the lead-up to the last election, Greg Hunt stated that "Minister Combet's suggestion that the Coalition ... will cut the target is completely wrong. The Coalition is very much aware of the importance of providing certainty for the renewable energy sector, and that any significant change would create sovereign risk."

INDUSTRY CONCERNS

Despite the assurances of his front-bench colleagues, the wind industry in Australia has concerns the Prime Minister won't keep his promises. Rather than provide certainty, he has appointed Dick Warburton, the former Caltex chair and an avowed climate sceptic with no specific knowledge of the electricity industry, to review the RET. Despite the fact new

renewable energy capacity needs to be built to meet the 2020 target, there are now no new wind projects going ahead.

Unfortunately for consumers and companies who buy electricity, the wind industry's lack of faith in the Coalition to keep its promises is putting upward pressure on electricity prices. Contrary to claims by the oligopolists who do very nicely out of the current electricity market, economic modelling has confirmed what students are taught in economics 101 – increasing supply pushes prices down. Even the modelling commissioned by Dick Warburton's review found the RET was pushing electricity prices down.

Being related to climate policy there are, of course, contrarian views about the RET. In what must mark the beginning of the end of the lucrative economic modelling industry, last week the Australian Chamber of Commerce & Industry (ACCI) released research that, contrary to all other recent modelling, found the RET was increasing electricity prices.

Leaving aside the implications of the fact Australia's most respected modelling houses can't even agree if a policy will push prices up or down, there is an irony hidden behind the equations in the ACCI modelling. It shows the RET putting upward pressure on electricity prices based on the assumption current uncertainty in the industry is delaying investment, making the 2020 target more expensive to reach.

It seems everyone agrees the RET's lowering of prices is damaged by the government's contribution of an uncertain investment climate.

The Coalition went to the last election promising not to cut the RET. The public positions of the ALP, Greens and PUP parties mean a majority of senators won't support any cuts passed through the lower house. All the wind industry needs to deliver certainty and continue investment, is the Prime Minister to restate his commitment to his pre-election promise.