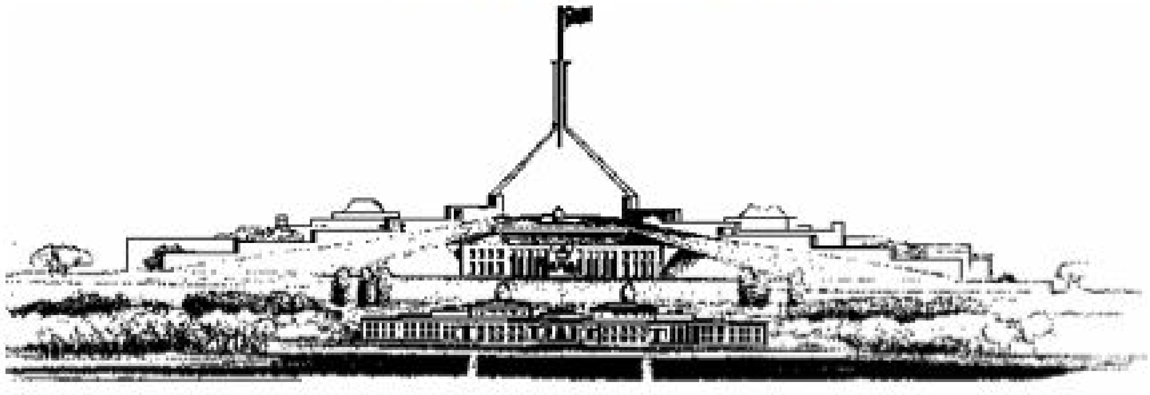
COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



THE SENATE

PROOF

BILLS

Renewable Energy (Electricity) Amendment Bill 2015

Second Reading

SPEECH

Wednesday, 17 June 2015

BY AUTHORITY OF THE SENATE

SPEECH

Date	Wednesday, 17 June 2015	**Source**	Senate
Page	27	**Proof**	Yes
Questioner		**Responder**	
Speaker	Madigan, Sen John	**Question No.**	

Senator MADIGAN (Victoria) (12:16): Today I am going to lift the lid on the economics of the RET scheme, while speaking on the Renewable Energy (Electricity) Amendment Bill 2015. I am going to give you the inside story on the money trail of the wind industry. This is the story that neither side in this place, nor the Greens with their wind industry fundamentalism, want you to hear.

The subsidy for renewable electricity, legislated in the REE Act 2000, is paid for by electricity consumers in their power bill. There is government modelling that discusses the effect of renewable energy on the wholesale price of electricity. The industry claims that the RET scheme reduces the wholesale price of electricity, which it does as it creates an oversupply of the market. The modelling is based on this effect. This effect is irrelevant, as the subsidy is paid by the consumer in the retail price of electricity. This price is agreed by the generator and the retailer in their power purchase agreement, PPA.

The industry claims that PPAs are commercial-in-confidence and so the myth of renewable energy lowering electricity prices is allowed to continue. In reality, the PPAs are setting the retail price of electricity generated by wind turbines at three times the price of fossil-fuel generators. In one example of a PPA, the electricity retailer was buying wind energy at $32 above the wholesale market price, resulting in a payment of $40 million per year more than it would otherwise have to pay for electricity. This amount is added onto consumers' bills, with a further retailer's margin typically between seven and 10 per cent. This increase in the retail price of electricity could be as high as 200 to 300 per cent. According to then Senator Boswell, during a Senate estimate hearing of 27 May 2010, Grant King, of Origin Energy, a very big player in this sector, said:

Aspects of RECs, such as the need to build thousands of megawatts of gas power to back up wind at a cost of billions, and expenditure on connecting wind farms to the grid will be a major factor in power price increases over the next decade.

He then said:

It could be two to three hundred per cent.

When you study the states of Australia that have had dramatic increases in their household power bills in recent years you will find a direct correlation to the number of wind turbines that have been connected to the grid in those states. You will find the same correlation in European countries.

No-one in this great house will talk about the economic effect of this amending legislation. I am one of the few senators who are in a position to do so. The coalition government find themselves in a conundrum. They have buckled under pressure from the wind industry to negotiate a deal with the ALP on the reduction of the target. Some say that this reduction will see up to 2½ thousand new wind turbines, built across prime agricultural land in Victoria, NSW, Queensland and South Australia. That is more than twice the number of turbines that we already have operating. This amending legislation is designed to give the financial sector some investment certainty, which the industry has been so desperate to provide. But at what risk? The financial risk is very significant. While some debt financiers will be sensible enough to recognise the regulatory risk involved in going forward with technology, the safety of which has been questioned in a pilot study commissioned by Pacific Hydro, I fear our Clean Energy Finance Corporation will not be one of them. The CEFC was designed by the Labor government to increase investment in renewable technologies, to the tune of $10 billion.

The coalition government therefore finds itself in an unsustainable position where it is supporting the continuation of an outdated scheme that will inevitably collapse. In 2000 the Howard government, unquestioningly, introduced the REE Act, which was concocted by some of the greatest financial magicians in our history. This financial rort was then supported throughout the Gillard government years and was strengthened by the establishment of the CEFC, ARENA and billion-dollar-deals with Chinese wind turbine manufacturers.

The amendment will now follow one of two paths: option 1 is that it will not be supported by my Senate colleagues, in which case the target will stay at 41,000 gigawatt hours, which will activate the $65 shortfall penalty charge in 2017. This, coupled with the REC price, will leave consumers with an effective $93 carbon tax, paid for by consumers in their household electricity bills.

The electorate of Australia have already voted down a $28 carbon tax, so the threat is clear: the coalition government may lose the next election based on this amendment under the directive of the Minister for the Environment. Or option 2: the amendment will be supported by the majority of senators and will pass, thereby setting a new target of 33,000 gigawatt hours—a level which will see the construction of up to 2½ thousand new wind turbines, which will create such havoc in our electorates and rural environments that there will be widespread community outrage.

To satisfy a new 33,000 gigawatt-hour target, 495 million RECs will have to be surrendered by electricity retailers. This will lead to a shortfall of 240 million RECs, as only16,000 gigawatt-hours will be available annually, and only 256 million RECs will be available to satisfy the LRET's remaining 495 million megawatt-hour target, set under this politically deceitful amendment. When the shortfall charge is triggered and the REC price goes up to $93, the total cost is added to power consumers' bills and will top $46 billion. A wind turbine operates, on average, only 27 per cent of the time—when the wind blows. There are 8,760 hours in a calendar year. Therefore, at 27 per cent, a three-megawatt turbine will generate $659,985 in subsidies per year. If you use the industries claimed 35 per cent capacity factor, each turbine will generate $855,414 each year. That subsidy is paid annually until 2031. Each three-megawatt turbine can generate a total of $13.5 million over the remaining life of the LRET scheme.

The RET subsidy, including small-scale solar, has already added $9 billion to Australian power bills. At the end of the day, retailers will have to recover the total cost of the RECs issued, and the shortfall charge, from Australian power consumers. No matter if this amendment is supported or not, each and every Australian household will pay a $93 carbon-tax-equivalent in their power bills, increasing bills by up to possibly 300 per cent. It is, without question, obvious that the imposition of what is a $45 billion retail electricity subsidy is going to have an adverse economic consequence for industry, small business and households alike. In my home state 34,000 homes were disconnected from the electricity grid because they could no longer afford to pay their power bills. The imposition of the coalition's electricity tax will naturally lead to tens of thousands more families attempting to live without power.

The situation is mirrored in other states. Electricity has gone from being a basic necessity to a luxury good for many hard-pressed Australian families. While certain members of the coalition government claim that the RET scheme is family and business friendly, perpetuating the wind industry line that it carries with it no significant cost to power consumers, the efforts to exempt energy-intensive trade-exposed industries reveals that argument to be a lie. This is deceitful. If there is no cost to power consumers from the RET scheme, then why the need to exempt energy-intensive industries such as aluminium smelters? It is simply policy hypocrisy. At some point this parliament will act to properly control the operation of wind farms by placing conditions on access to subsidies. The potential for that kind of regulation is a detrimental point of risk for bankers and investors.