



CCBR has had a look at how the Finkel Review of the Electricity Market shapes up . . .

and what it might mean. . . .

The Finkel Review - some explanations, some comments

The Finkel Review of Energy was set up by COAG in late 2016. On 9th June 2017, the panel handed down its report on balancing power prices with reliability and emissions reduction.

The challenge facing Dr Finkel was to produce recommendations that would be acceptable to politicians, whilst still being effective in achieving its aims. Faced with the Federal government's fatwa against a Carbon Tax, an Emissions Intensity Scheme, a Cap and Trade scheme, or anything else that smelt of a price on carbon, the Finkel report proposes a Clean Energy Target (CET).

Clean Energy Target

This sets a threshold for emissions of so many tonnes of CO₂ emissions per megawatt-hour (MWh) of electricity generated. Generators emitting below that would be issued with certificates which they can sell to generators above it. Electricity retailers and industry would be obliged to buy the certificates, creating a market price and extra revenue for low-emission power generators. This would make the high-emitting generators less price competitive compared with those below the threshold. The difference from the existing Renewable Energy Target (RET) is that it focuses on emissions, not on the technology that produces them. Any form of generation below the threshold can earn credits, not just renewable sources like solar and wind.

The CET produces no revenue for the government so could not be described as a 'tax'.

Dr. Finkel hopes this compromise will allow some political bipartisanship, ending the chaos that has been disastrous for energy investment.

What threshold?

Predictably, the political stoush now centres on what this threshold would be.

- Coal-fired power stations emit around 0.8tCO₂e/MWh or more (Victorian brown coal as much as 1.2).
- Australia's overall emissions are around 0.8, due to our high reliance on coal. US emissions are around 0.5 overall, Canada and Europe well below that figure.
- Gas-fired generators come in at around 0.5, while renewable energy sources produce negligible emissions (typically 0.01-0.05) over the lifetime of the plant, including manufacturing).
- The report uses a threshold of 0.6tCO₂e/MWh in its modelling, but does not prescribe this.

Critically, 0.6 would allow gas-fired generators to be treated in the same way as solar and wind-powered generators. Any setting above around 0.4 also allows the chimera of Carbon Capture and Storage (CCS) to stay on the table. However this technology is many years away from working at an industrial scale; is likely to remain prohibitively expensive; and does not address any of the health and other issues around coal mining.

The cut-off level would be set and agreed by governments at COAG within the next few months.

Will it have the desired effect?

Finkel's prescription claims to meet Australia's immediate commitment under the Paris agreement: to reduce emissions by 26-28% by 2030, by predicting a renewable energy share of generation of around 42% - leaving other sector emissions (agriculture, transport, etc) some leeway as reductions are more difficult. A number of problems arise however:

- 26-28% is generally recognised to be too modest a target to achieve the longer-term ambition of limiting the global temperature rise to 2C.
- Similarly, climate experts are generally calling for renewable energy shares of at least 50% by 2030 and 100% by 2050 (or more, earlier) to achieve the Paris aims.

- A fixed CET threshold will become less and less effective as cleaner energy plants are brought into the mix and coal-fired plants are retired. There is no recommendation for a progressively reducing threshold, thus limiting the long-term effectiveness of the scheme.
- Although building gas-fired generators to replace aging coal-fired ones would have the effect of reducing emissions in the short term, it would take investment away from totally clean renewable energy systems. In a decade, Australia would have a fleet of new gas systems, which, once built, are unlikely to be replaced for many years more.

More in the Finkel Review

Other elements of the Finkel Review recommendations address some of the other concerns around our energy system. These include:

- Three years' notice to be given of intention to close a power station, thereby, hopefully, allowing for some provision of new employment for workers.
- Rewards for consumers who reduce or time-shift their energy demand when needed.
- Programs (unspecified) to encourage "safe exploration and production of gas".
- Modelling showing that household energy prices will be reduced by around 10%.

How has it been received?

Business groups and the energy industry sector are generally positive. Their consensus is that either a straight out carbon tax or an EIS (an Emissions Intensity Scheme, in which low-emitting generators are rewarded and high emitters are penalised in proportion to their emissions intensity) would have been preferable, but any real plan is better than none, and this seems better than most.

Consumer groups are pleased with the promise of lower costs to households, and the plans for a more reliable energy system.

Climate change and environmental groups are generally critical, saying that the CET is much too weak, won't go far enough in reducing emissions, and anything that encourages gas is a bad thing. Greens politicians and some cross-benchers agree.

Former Prime Minister Abbott believes that any scheme that puts a price on emissions must necessarily cost householders more, and he would not support such a scheme. He, and Barnaby Joyce and a number of far-right hard-line government MPs say they will oppose anything that discourages the use of coal.

Mainstream government and opposition leaders are supportive, subject to further examination.

What do we think?

So it seems that while Dr Finkel hopes that his recommendations have enough in them to please all parties, he may have come up with a scheme that is too weak for some, and yet still too strong for others.

Agreement does not seem at all certain at this stage.

After the energy and climate chaos of the last decade, Australia urgently needs a clear action plan.

It is said that 'perfect' should not be allowed to be the enemy of 'good'. The question is, though, whether Finkel's plan is good enough.