

# Opinion: A 'cleanish' energy target gets us nowhere

20 September 2017, by Alan Pears



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It seems that the one certainty about any clean energy target set by the present government is that it will not drive sufficient progress towards a clean, affordable, reliable energy future. At best, it will provide a safety net to ensure that some cleanish energy supply capacity is built.

Future federal governments will have to expand or complement any target set by this [government](#), which is compromised by its need to pander to its rump. So a cleanish [energy](#) target will not provide investment certainty for a carbon-emitting power station unless extraordinary guarantees are provided. These would inevitably be challenged in parliament and in the courts.

Even then, the unstoppable evolution of our energy system would leave an inflexible baseload power station without a market for much of the electricity it could generate. Instead, we must rely on a cluster of other strategies to do the heavy lifting of driving our [energy market](#) forward.

## The path forward

[It's clear](#) that consumers large and small are increasingly investing "behind the meter" in [renewable energy technology](#), smart management systems, [energy efficiency](#) and energy storage. In so doing, they are buying insurance against future uncertainty, capturing financial benefits, and reducing their climate impacts. They are being helped by a wide range of emerging businesses and new business models, and existing energy businesses that want to survive as the energy revolution rolls on.

The Australian Energy Market Operator (AEMO) is providing [critically important information](#) on what's needed to deliver energy objectives. The recently established Energy Security Board will work to make sure that what's needed is done – in one way or another. Other recommendations from the Finkel Review are also helping to stabilise the electricity situation.

The recent AEMO/ARENA [demand response project](#) and various state-level [energy efficiency retailer obligation schemes](#) and [renewable energy targets](#) are examples of how important energy solutions can be driven outside the formal National Energy Market. They can bypass the snail-paced progress of reforming the NEM.

## States will play a key role

State governments are setting their own renewable energy targets, based on the successful ACT government "contracts for difference" approach, discussed below. Victoria has even employed the architect of the ACT scheme, Simon Corbell. Local governments, groups of businesses and communities are developing consortia to invest in clean energy solutions using similar models.

Some see state-level actions as [undermining the national approach](#) and increasing uncertainty. I see them as examples of our multi-layered democratic system at work. Failure at one level provokes

action at another.

State-level actions also reflect increasing energy diversity, and the increasing focus on distributed [energy solutions](#). States recognise that they carry responsibilities for energy: indeed, the federal government often tries to [blame states for energy failures](#).

There is increasing action at the network, retail and behind-the-meter levels, driven by business and communities. While national coordination is often desirable, mechanisms other than national government leadership can work to complement national action, to the extent it occurs.

### **Broader application of the ACT financing model**

A key tool will be a shift away from the current RET model to the broader use of variations of the ACT's [contract for difference](#) approach. The present RET model means that project developers depend on both the wholesale electricity price and the price of Large Generation Certificates (LGCs) for revenue. These are increasingly volatile and, over the long term, uncertain. In the past we have seen [political interference](#) and low RET targets [drive "boom and bust" outcomes](#).

So, under the present RET model, any project developer faces significant risk, which makes financing more difficult and costly.

The ACT contract for difference approach applies a "market" approach by using a reverse auction, in which rival bidders compete to offer the desired service at lowest cost. It then locks in a stable price for the winners over an agreed period of time.

The approach reduces risk for the project developer, which cuts financing costs. It shifts cost risk (and opportunity) to whoever commits to buy the electricity or other service. The downside risk is fairly small when compared with the insurance of a long-term contract and the opportunity to capture savings if wholesale electricity prices increase.

The ACT government has benefited from this scheme as wholesale prices have risen. It also includes other requirements such as the creation of

local jobs. This approach can be applied by agents other than governments, such as the consortium set up by the [City of Melbourne](#).

For business and public sector consumers, the prospect of reasonably stable energy prices, with scope to benefit if wholesale prices rise and limited downside risk, is attractive in a time of uncertainty. For project developers, a stable long-term revenue stream improves project viability.

The approach can also potentially be applied to other aspects of energy service provision, such as demand response, grid stabilisation or energy efficiency. It can also be combined with the traditional "power purchase agreement" model, where the buyer of the energy guarantees a fixed price but the project developer carries the risk and opportunity of market price variations. It can also apply to part of a project's output, to underpin it.

While sorting out wholesale markets is important, we need to remember that this is just part of the energy bill. Energy waste, network operations, retailing and pricing structures such as high fixed charges must also be addressed. Some useful steps are being taken, but much more work is needed.

This article was originally published on [The](#)

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Provided by The Conversation

APA citation: Opinion: A 'cleanish' energy target gets us nowhere (2017, September 20) retrieved 4 March 2021 from <https://phys.org/news/2017-09-opinion-cleanish-energy.html>

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