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Opinion Politics

OPINION

Stephen Anthony: Energy policy's Paul Keating's test

Stephen Anthony The West Australian
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Chalmers options to fix energy crisis illustration :Don Lindsay Credit: Don Lindsay/The West Australian

Treasurer Jim Chalmers has offered up an essay on remaking capitalism in The Monthly. It's noteworthy that he has a vision and praiseworthy that he took the time over the Christmas break to pen it.

So having asked for a view I begin with the robust benchmark of Labor stalwart Paul Keating who always prioritised the working poor over vested interests including the incumbent cultural or business elites. A perennial benchmark that serves our purpose for this frank analysis.

Keating applied his policy test when he cut personal income taxes, broadened other taxes, slashed tariffs and balanced budgets with Peter Walsh. A formidable partnership that upended the prevailing paradigm – deregulation of the finance sector, introduction of ground-breaking versatility to the labour market with enterprise bargaining; establishing a comprehensive, compulsory superannuation regime and tackling many micro reforms.

The Keating test is "do the tangible benefits for a given policy doctrine or prescription outweigh the costs for ordinary working Australians?"

Further, would an independent agency such as the Productivity Commission (whom PJK leaned on heavily for advice and credibility) support the bona fides of a given policy prescription especially against the scourge of special interests.

For mine, the key test for Dr Chalmers' doctrine of greater government involvement in shaping markets and co-investment with the private sector is whether it can survive the Keating test.

And critically, can the Chalmers doctrine be applied to the most pressing policy challenges crossing the Treasurer's desk and the Cabinet table.

What are the most pressing challenges facing the Treasurer right now?

In no particular order they are: affordable housing; aged care; defence capability; the energy transition; NDIS; public debt interest; and real tax reform.

So let's think about how this might work practically in the case of Australia's (and the globe's) pressing existential threat – the energy transition. If anyone doubts the gravity of this threat, consider the following.

First, current policy settings are already depriving many people in our community of inexpensive power. Worse, the situation is deteriorating. A recent survey by the Melbourne Institute of 1000 people in December found that 32 per cent of young adults, or people who earn below $50,000, could not afford to heat or cool their homes to a comfortable level, while 35 per cent of poor Australians had skipped meals to afford bills.

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Even the poorest in our community (or otherwise vulnerable people) have a chance in life if they benefit from cheap, abundant energy, starting with a controlled climate at home and their place of work or study.

Second, current policy settings are inadvertently driving up costs because they fail to optimise over the sources of generation to reduce emissions while securing reliable power generation. Indeed, our modelling suggests the Eastern States' energy grid will "eat itself" leading to ongoing catastrophic market failures — in other words chaos — based on existing approaches to energy storage (batteries and hydro).

So we draw too much intermittent power and not enough firm power. This leads to higher prices for consumers and the likely loss of all our heavy industry. But it also makes the other producers more uncertain, increasingly susceptible to electricity price variation, blackouts etc.

Cascading policy failures and omni-shambolic decision making threatens the safety and livelihoods of the most vulnerable people in our communities. Perhaps the end game here is that State governments will return all generation to public hands via the introduction of capacity markets. Government will then be able to ration supply out to those who can't afford to self-provide.

Cascading policy failure has led to private energy investment being overrun by rent-seekers and subsidy chasers into technologies that may only ever survive with public subsidy. Meanwhile, the big institutional investors such as the superannuation funds wait for grown-up governments to meet them at the deal table.

Third, the cost of all this bad policy is mainly borne by working class energy consumers and the Federal taxpayers who will have to foot the bill for pretty much every sub-optimal State government policy and rewiring the national grid as well as adding additional renewable energy generation.

So what practical actions can Dr Chalmers take guided by his doctrine?

First, he could have the Productivity Commission or some similar independent economic and engineering analytical capacity to undertake a comparable annual study to our 2019 Industry Super Australia analysis which examined all the feasible energy transition technology options.

The independent study would consider the need to retain the existing value embodied in the infrastructure (the existing transmission grid and thermal power plant equipment such as boilers and steam turbines) associated with coal-fired power stations. This is needed to prevent these incredibly valuable assets from simply being trashed.

One feasible technological possibility here is small modular reactors.

Alternatively, retrofitting coal-fired power stations with ultra-high temperature thermal storage is also a possibility given recent technological developments.

Thermal storage entails super-heating an appropriate heat sink media such as graphite that can drive the existing utility scale steam turbines at conventional power plants, thus eliminating the need to burn coal or gas. It can harness the potential of solar and wind generators, while providing a network backup.

Regardless of the available technologies, the Productivity Commission could deliver the rigour necessary to provide guidance on their selection, mix and implementation.

Second, he could have an independent agency advise him how to make much better use of solar and wind technologies. We know that based on a recent ANU study that some Australian solar farms are having half their output curtailed by grid congestion in some instances. Presumably, the answer here is a mix of short-term batteries, hydro, and again long-duration thermal storage options.

Third, we need to establish regulatory frameworks which support the entry of supporting technologies into the energy markets.

For Dr Chalmers to bring home the bacon in energy policy he must overcome the chaos that is Australia's energy markets and policy. For mine, the simplest way to do this and which accords with his broader vision for the Australian economy is to direct attention towards an optimising policy approach and technological mix. This puts the Federal Treasurer and Treasury in the driver's seat in terms of restoring order and equilibrium to Australia's disparate energy markets and participants including the State premiers.

My key message here concurs with Chalmers' doctrine. That the allocation and deployment of capital can't be achieved without a strong policy framework and the purview of institutional capital being an integral part of the equation. Treasury must take command of energy policy like it did in the 1980s and 1990s. It must assist Energy Minister Chris Bowen and the Federal Treasurer since it's ultimately picking up the tab and Dr Chalmers' elite assault team when he assumes the role of dealer at the table in the fiscal-energy poker game with State governments and other market participants .

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