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Media release

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Leyonhjelm's plan for a State Government electricity tax

The latest plan to renege on the 41,000 GWh renewable energy target (RET) is even worse for consumers than the plans modelled by Dick Warburton's recent inquiry, according to an analysis by The Australia Institute.

A new proposal from NSW Senator David Leyonhjelm recommends existing hydro electricity generators built before the RET become eligible for Renewable Energy Certificates.

"The proposal ignores history, ignores economics and ignores common sense," Richard Denniss, Executive Director of the Australia Institute said.

"Senator Leyonhjelm's proposal wouldn't cut the cost of the RET to consumers. It would see the billions flow to the owners of existing hydro electricity generators, rather than to the builders on new renewable power plants.

"Under the scheme consumers would pay all of the costs but get none of the benefit. Indeed, if you were designing a scheme with the objective of undermining the RET and increasing electricity price, it's difficult to think of a more effective way of doing it," Dr Dennis said.

Despite claiming he wants to deliver certainty to investors, Senator Leyonhjelm has proposed yet another new inquiry into the RET to consider whether gas should be defined as renewable energy, so that direct action and the RET can be merged.

"It's remarkable that a senator who prides himself on being a libertarian would propose a scheme that is so bad for consumers. Even the Warburton review wouldn't recommend this stinker.

"The government is yet to respond to the Warburton review into the RET and, less than a month after passing its direct action policy through the Senate, Senator Leyonhjelm is suggesting that it too be fundamentally restructured.

"The only certainty that would come from adopting Senator Leyonhjelm's recommendations, is the certainty that no investor would ever take this government seriously again," Dr Denniss said.

For comment, please contact: TAI Senior Economist, Matt Grudnoff on 0402 483 782

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Background

- Liberal Democrats Senator for NSW, David Leyonhelm, is proposing that existing hydro electricity generators that are built before the RET become eligible for Renewable Energy Certificates (RECs).
- Under his proposal consumers would still have to fund the renewable energy target but the funds would go to the owners of old hydro generators rather than new
- While electricity consumers are the biggest losers from this proposal, the biggest winners are the owners of the existing hydro generators. The vast majority of these owners are state governments. The proposal is therefore effectively a state government tax on electricity users.
- The proposal indicates it protects solar but this untrue. Any reduction in the Large-scale Renewable Energy Target (LRET) would hit largest scale solar first. Furthermore the proposal is to include the Small-scale Renewable Energy Scheme (SRES) inside the 41,000 GWh target puts a cap back on the scheme
- The proposal by Senator Leyonhjelm would see the downward pressure from additional supply of renewable electricity end while at the same time keep the upward pressure from having to buy RECs.
- The result is higher electricity prices than any other proposal to modify the RET that has been floated.
- Senator Leyonhjelm proposes including gas in the RET
- Senator Leyonhjelm wants to prevent states doing more than the federal minimum – i.e. the ACT 90 per cent renewable target wouldn't be additional to the 41,000 GWh, which undercuts state rights.
- Senator Leyonhjelm says he wants to give investors certainty but proposes that the Climate Change Authority undertake a review that might abolish his new RET as part of a merger between RET and direct action.
- Direct action and the RET have little in common. Direct action uses taxpayers money to pay people to abate carbon emissions. The RET obliges electricity retailers to sell electricity with a minimum mix of renewable energy.
- Senator Leyonhjelm is concerned about the impact of the RETshortfall charge on consumers. Rather, he should be concerned about the impact of paying hydro companies again for investments they have already profited from, and from reducing the supply of electricity which is pushing electricity prices down

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- The proposal seeks to avoid the cost of installing 25,000 GWh but does not avoid the cost to consumers. Consumers pay hydro companies for old hydro rather than renewable companies for new renewables. Warburton modelling shows the opposite of Leyonhjelm's claim, the RET pushes electricity prices down

- Existing hydro providers already have an incentive to improve efficiency. If they increase energy production above their baseline they get paid RECs

- The SRES was invented to prevent rapid growth of small solar cannibalising stable investment climate for big renewables - this proposal just unwinds that.

- The 41,000 GWh target is sustainable - it just needs politicians to stop reneging. What is unsustainable is protecting up to 60 year old brown coal fired power stations, who are being squeezed out by the growth of renewables.

- The exclusion of large scale hydro from the RET is not inexplicable and unjustified. Those investments were profitable at the old electricity price. The purpose of the RET as designed by the Howard Government was to stimulate new, additional, investment, not transfer money from electricity consumers to hydro generators.

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