



Distorting energy markets

Electricity subsidies in Australia



THE FACTS

PRODUCED BY THE MINERALS COUNCIL OF AUSTRALIA

Australians paid more than \$3 billion in subsidies for electricity production in 2015-16, new research shows – with 98 per cent going to renewable energy sources like wind and solar power.

What are subsidies?

Subsidies include funds transferred directly by government to producers and funds transferred from private entities to producers under government mandates.

How does Australia subsidise electricity?

The main electricity subsidies are provided under the Federal Government’s Renewable Energy Target (RET) and State Government solar feed-in tariff (FiT) schemes.

The RET requires electricity retailers, and large customers, to buy a minimum proportion of their electricity from renewable generators. The retailers pass on the extra cost of buying this renewable energy to their customers – household and business electricity users.

FiTs require electricity retailers to pay a tariff to people with rooftop solar panels for electricity they feed into the grid. The electricity retailers then pass this cost on to all of their customers.

In addition to the RET and FiTs, governments provide subsidies in the form of direct funding for various electricity generation and technology projects.

Who pays?

RET and FiT subsidies are paid by all electricity consumers – households, businesses and other electricity customers – in the form of higher power bills.

Subsidies paid through direct government funding are borne by taxpayers, as the funds come from government budgets.

SUBSIDIES PER UNIT OF ELECTRICITY 2015-16

\$214 PER MWh

SOLAR



\$74 PER MWh

WIND



\$33 PER MWh

ALL OTHER RENEWABLE
including hydro



40¢ PER MWh

COAL



TOTAL NON-RENEWABLE \$0.30 PER MWh

TOTAL RENEWABLE \$85 PER MWh

Source: BAEconomics, Electricity production subsidies in Australia, Mar 2017

What is the impact on electricity bills?

For households, the RET and FiT schemes account for 4 to 15 per cent of annual electricity bills, depending on the State or Territory.

For medium to large mining businesses (that are not exempt from making payments under the RET), the RET accounts for between 9 and 12 per cent of annual bills.

For medium to large manufacturing businesses (that are not exempt), the RET accounts for between 8 and 16 per cent of annual bills.

4-15%  **HOUSEHOLDS**

of annual electricity bills

9-12%  **MINING**

of annual electricity bills

8-16%  **MANUFACTURING**

of annual electricity bills

What is the outlook for electricity subsidies?

The amount of renewable energy required to be purchased under the RET's large-scale component (LRET) is legislated to increase from 21,431 gigawatt hours (GWh) in 2016 to 33,850 GWh in 2020 and 33,000 GWh a year from 2021 to 2030. Even if the cost per MWh of meeting these targets stays unchanged, the total subsidies under the RET will increase to \$2.2 billion in 2017 and \$2.8 billion a year from 2020 to 2030.

While most FiT schemes are now closed to new entrants, they will continue to pay subsidies to existing participants for years to come. The Victorian Government recently announced a new FiT scheme – electricity retailers are expected to recover the cost of this new FiT scheme from consumers.

In addition a number of State and Territory Governments are planning their own renewable energy mandates which will involve new subsidies to renewable generators, with the costs being paid by electricity users.

Sources: BAEconomics, *Primer on renewable energy subsidies in Australia*, Jan 2017
BAEconomics, *Electricity production subsidies in Australia*, Mar 2017

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SUBSIDIES BY SCHEME 2015-16

SCHEME	TOTAL SUBSIDIES
Federal renewable energy target – large scale (LRET)	\$1.42 billion
Federal renewable energy target – small scale/household solar (SRES)	\$648 million
ACT Renewable Energy Target	\$6 million
State Feed in Tarriffs (FiTs) – household solar	\$772 million
Direct funding – federal	\$170 million
Direct funding – state	\$15 million
TOTAL	\$3.03 billion

“ Given the very large sums involved, **the impacts on electricity bills for households and businesses are significant.** ”

BAEconomics



SUBSIDIES BY GENERATION TYPE 2015-16

TECHNOLOGY	TOTAL SUBSIDIES
Solar	\$1.562 billion
Wind	\$902 million
Hydro	\$260 million
Bioenergy	\$169 million
Other renewable	\$74 million
Coal	\$63 million
TOTAL	\$3.03 billion