

The way out of energy crisis is reliable coal plants, not renewables

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AGL claims it has “a plan to get out of coal as smoothly as possible — embracing cleaner, more sustainable sources of energy like solar, wind and hydro”. This, it says, will be an “orderly” process beginning five years from now and finishing in 2050. Now that’s planning.

While anxious to promote its green credentials, 90 per cent of AGL’s actual generation is fossil fuel based, mainly coal from Bayswater and Liddell in NSW, and Loy Yang A in Victoria.

With more than a quarter of the nation’s major coal and gas plant, AGL has benefited enormously from the closure of South Australia’s Northern and Victoria’s Hazelwood power stations. Although those two power station closures represented only about 4 per cent of the national market capacity, they constituted a far greater share of baseload supply.

Together with the scarcity of gas as a result of state government exploration bans, the tightening of supply from their withdrawal of capacity has resulted in skyrocketing wholesale electricity prices.

Compared with average spot prices prevailing in 2015, the forward price has trebled in NSW, Victoria and South Australia, and doubled in Queensland.

Although all suppliers and retailers buy most of their electricity on contracts that cover them a year out, the elevated forward prices will be those that retailers and therefore customers have to pay.

At the current year’s spot price, as forecast by the Australian Energy Regulator, AGL will see an increase in revenue at no extra cost of \$3 billion. On the company’s estimated profits for the year ending in June of less than \$1bn, this is a colossal bonus to the shareholders. Other major producers — Origin, China Light and Power, and the Queensland government — also will see \$1bn-plus benefits. In Origin’s case this is on top of an underlying profit of less than \$400 million. Perhaps the biggest winner is ERM/Sunset, which bought the Vales Point Power Station for a knockdown \$1m in November 2015 and has since seen the NSW spot price rise from \$35 to \$110 a megawatt hour.

Overall, generators are estimated to increase their revenues, at no extra cost of production, from a little over \$7bn in 2015 to more than \$22bn in the present 12-month period. Of course, the flip side of this bounty to the electricity generators is distress for customers. Households are the customers at the political frontline and prices are shifting upwards. But household distress is less significant than the impact on business competitiveness.

For much industrial plant, a trebling of the wholesale ex-generator price, once line charges are included, becomes a doubling of the price at the plant. Many firms will go under in the face of such an impost. Others will see the cost of expansion in Australia leapfrog compared with costs of alternative overseas investments and make the appropriate investment decisions.

This translates into a deindustrialisation process with profound consequences for all our living standards. Such unfortunate outcomes from the upsurge in prices are further aggravated by the deteriorating reliability of the system. A harbinger of this was the South Australian blackout last year followed by a near miss this year. Deteriorating reliability stems from subsidised wind replacing more dependable fossil supplies and because of the tighter supply resulting from the forced closure of the coal stations, reducing the amount of spare capacity to cope with breakdowns and weather events.

The only reason Australia is confronting this detrimental economic situation is because of the energy policies being followed, primarily the subsidies to wind. The situation remains retrievable partly by salvaging mothballed plant in Victoria and NSW (South Australia having already destroyed its closed coal generators). We may also see the building of new plant. AGL may have turned its back on fossil fuels but there are dozens of other enterprises around the world and locally that would seek to exploit the profit potential from supplying a market that is overpriced.

And such potential is readily available. The last major coal generation power station built in Australia was Kogan Creek owned by the Queensland government and commissioned in 2007. At that time the power station could operate profitably by selling power at under \$45/MWh. The cost, taking into account the preference given renewables, is now said to require \$70/MWh, though this seems excessive as inflation since 2007 has been only 24 per cent. What is certain is that the price of coal-based electricity is a fraction of that available from renewable sources — which costs \$110/MWh — and well below that available from gas plant.

To maintain living standards, Australia needs to prevent premature closures of low-cost electricity generators and to build new ones that take advantage

of our abundant coal supplies and the expertise of the workforce. The only thing stopping this is government regulations forcing subsidies to renewable energy.

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