




Direct action



If it is not commercially prudent for the owner of a power station to reinvest millions of dollars to extend its life, then who would pay for it?
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There is no reliable power without a reliable plan

Energy crisis
It takes more than patching up old power stations to rebuild a robust, low-emissions energy supply system.



Matthew Warren

The electricity system is a giant machine in a giant transition. The task at hand is daunting: to refit the machine so it continues to deliver reliable and affordable power, whilst substantially reducing its greenhouse emissions through the first half of this century.

The future of the grid will not be decided by whether or not to extend the life of an old power station in NSW. It will be delivered by the development of a credible, flexible and bipartisan strategy that businesses and governments can invest behind and adapt over the next generation.

This week the Australian Energy Market Operator (AEMO) produced two separate but related reports which effectively said the same thing: after a decade of policy uncertainty we are at increasing risk of not having enough electricity when we need it. This scarcity is driving prices up and reliability down, both of which are hurting businesses and households.

This next summer AEMO identified as

the first of a rolling storm of pinch points where the risk of blackouts in Victoria and South Australia has increased. This information is not new. The biggest thing to change this week is the candour and frankness of its warning.

Like sandbagging before a flood, AEMO, the electricity industry, state governments and a number of industrial customers have already been putting in place measures to mitigate this risk. Some of these measures, like emergency diesel generators, are temporary.

Others, like large batteries and contracting businesses to be ready to switch off demand during times of peak demand, are likely to be more permanent.

The current response is piecemeal; a scheme here, a Tesla battery there. With careful planning the relevant participants hope to minimise the risk of blackouts this summer.

But these are more Band-Aid solutions in the absence of the multibillion-dollar investment needed to rebuild a reliable low-emissions system. That investment requires policy certainty and a bipartisan strategy. This remains elusive.

The underlying pressure on the system is coming from the rolling retirement of Australia's fleet of coal-fired generators. Built largely from the 1960s to the 1980s, they are now reaching the end of their working lives and preparing to exit the market.

AGL is the owner of the Liddell power station in the Hunter Valley. More than two years ago it signalled its intention to close the asset in 2022. That's seven years' notice.

The problem isn't old power stations closing. It's that we don't have a plan to replace them. To manage system reliability and affordability, the market operator may want to buy some time and seek to extend the life of some of these generators. That may be a sensible and cost-effective

solution.

Each power station is different in its age, its condition, how it was run during its life, its supply of fuel and how much it would cost to extend its life.

It's not unlike driving a car bought in the 1970s to work every day. You can do it, but maintaining an ageing vehicle starts to get prohibitively expensive. And that, in turn, will depend on whether it's an old Kingswood or an old Alfa Romeo.

Liddell was driven hard by its NSW government owners when it was first built. It's had a harder life than many other generators, and has received substantial reinvestment in most parts of its operating plant over its life.

Decisions about whether or not to extend the life of any existing generator will need to be made on a case-by-case basis, and as part of a national energy strategy.

The cost of extending the life of old coal, and the terms under which it would run, would need to stack up against competing technology solutions to do the same job. The whole system would need to reflect the emissions targets agreed by successive governments.

If it is not commercially prudent for the owner of a power station to reinvest millions of dollars to extend its life, then who would pay for it? How do we make sure this is the most efficient investment? What are the other options, and what do they cost?

These are important and expensive questions. They haven't yet been considered as part of a national energy strategy we don't yet have. Instead we have arrived with startling speed to an oddly public commercial negotiation.

We are better off closing the deal on bipartisan and durable national climate and energy policy, and ending a decade of investment gridlock and uncertainty.



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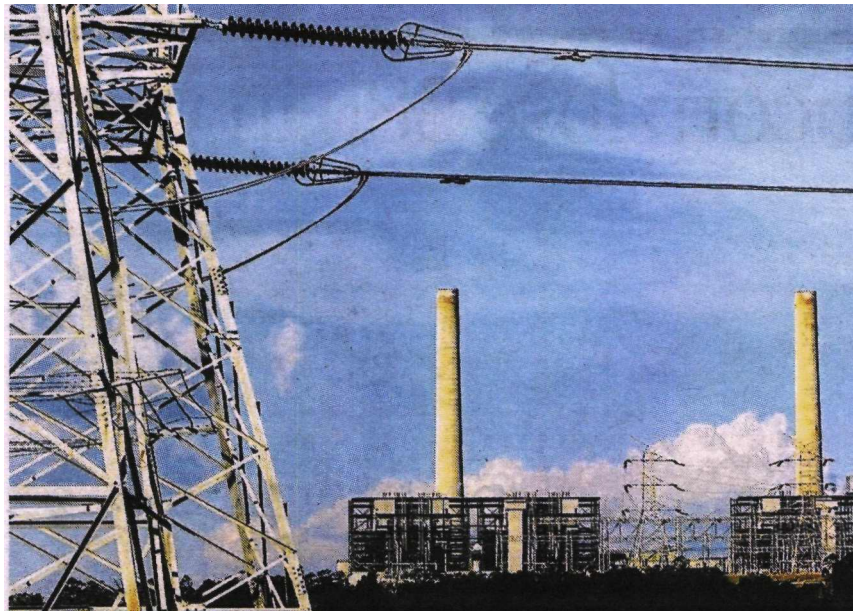
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*Matthew Warren is chief executive of the
Australian Energy Council.*

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The Liddell power station is still slated to close in 2022. PHOTO: LIAM DRIVER