

Coal shutdown risks bill shock

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► Origin to close biggest NSW plant seven years early ► Federal, state ministers clash over battery plan ► Fears power costs to soar

Energy minister Angus Taylor has slammed his NSW counterpart Matt Kean's reliance on batteries as "delusional" amid fresh fears energy prices will spike after Origin Energy's shock decision to close the country's biggest coal-fired power plant seven years early.

Origin's 2880-megawatt Eraring generator on NSW's Central Coast – responsible for 20 per cent of the state's electricity needs – will shut down in August 2025, just two years after AGL Energy's scheduled Liddell closure wipes out a major chunk of base-load capacity relied on by industry.

As major energy users and economists warned of a "disaster for energy bills" that would fall on industry and households, Mr Taylor lashed out at Mr Kean's claim the gap left by Eraring could be filled by batteries and other new plants under development.

"Anyone who thinks a 700-megawatt battery that lasts for two hours is going to replace a 2800-megawatt coal-fired power station is delusional," Mr Taylor said, after Origin stunned both sides of politics

just months out from a federal election with news of a closure that will cost 400 jobs.

Mr Taylor said it would leave a "considerable gap" in reliable generation in the national electricity market and called for companies to make public commitments to replacement projects by June 2023, recalling the 85 per cent spike in wholesale power prices when the Hazelwood generator in Victoria shut in 2017.

While replacement batteries – which were announced yesterday by Origin and Mr Kean – would "play a role", NSW was "going to need serious replacement" in power generation, said Mr Taylor, who indicated he was angered by the company's decision after finding out about it on Wednesday night.

The move adds to coal-fired power station closures that have picked up pace over the past two years and points to multiple shutdowns in coming years as the energy grid undergoes a historic transformation from fossil fuels to

renewable energy.

While the shift is cutting carbon emissions and helping Australia reach its 2050 net zero target, there are growing concerns a lack of dispatchable power will risk blackouts and drive up prices.

"Power stations like Eraring can't survive when they're effectively competing against vast quantities of subsidised renewables," said Frontier Economics managing director Danny Price, vindicating the federal government's push to invest in gas power stations such as Kurri Kurri in the Hunter.

"What we do need is fast, highly reactive, dispatchable generators" to cope with shortfalls in solar and wind.

Even as green groups cheered the Eraring decision, industry players scrambled to digest the ramifications. Newcrest Mining CEO Sandeep Biswas labelled it a "shock".

"There is going to be enough power, the question is around baseload," Mr

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WITH PETER KER

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Biswas said. “Are we going to have enough baseload with a combination of existing power stations, through solar, wind and battery technology to smooth it out so the power is available when you need it?”

Mr Kean and Origin Energy chief executive Frank Calabria said investments already planned and policy measures in place in NSW would spur the projects needed to secure the grid.

Mr Kean said the Waratah “super battery” would act as a “shock absorber” in the grid and free up transmission capacity kept in reserve to handle events such as lightning strikes and bushfires, while NSW’s electricity infrastructure plan would drive other new investments. That meant no risk to the grid even if the Snowy 2.0 pumped hydro storage project was not online by the time Eraring closed.

“We’ve triple-checked it with AEMO and we’re confident that we’ll be able to meet our energy security target which is the tightest in the country,” Mr Kean told the *Financial Review*.

“This is what happens when you develop a comprehensive plan to respond to the risks that not only Origin is dealing with, but every power station in the country is dealing with.”

The body that runs the power and gas market agreed there was no risk to energy security. However, it made no remarks about prices.

“Planned additional transmission capacity – including the announced battery – will give the state access to

enough electricity generation to meet the Energy Security Target at the time Eraring closes,” said Daniel Westerman, head of the Australian Energy Market Operator (AEMO).

Mr Calabria said Eraring would be uneconomic by 2025 due to changes in the market, but did not rule out a sale of plant if an offer was made.

AEMO has been stepping up its warnings of the likely accelerated closure of baseload coal power plants due to the rise of cheap renewable power, in particular the flood of solar in the daytime which frequently drives wholesale prices to zero or below.

Origin’s rival AGL Energy last week also brought forward the dates for its two largest coal plants to close, although it still is assuming its Loy Yang A plant in Victoria will run until 2045. Alinta, which owns another brown-coal generator in Victoria, has suggested its plant could close up to 15 years early.

The 400 workers at Eraring had been “blindsided” by the decision, union leaders said, calling for a transition plan for workers and communities in the Hunter.

Mr Kean said the NSW government would announce a “comprehensive jobs package” in the coming days focusing on the new employment opportunities opening up with the energy transition.

The NSW government’s Waratah Super Battery, to be developed with industry, will have power capacity of 700 megawatts and be able to run at that output for two hours.

Origin is planning a separate 700MW battery at the Eraring site and has brought the potential expansion of its Shoalhaven pumped hydro project back on the table.

The Eraring plant, Origin’s only coal-

fired generator, is one of the most flexible in the grid. But though Mr Calabria said it still played a “vital role” in supply, the rapid entrance of renewables into the market meant the economics were becoming more “challenging”.

The plant costs up to \$250 million a year in fixed and operational costs even before the purchase of coal to fuel it, and was hit by extra costs in the December half due to supply constraints at its main coal supplier. It is thought to have been unprofitable at times last year when wholesale electricity prices slumped.

“We’re making judgments of a rapidly changing energy market that we know has been under way and continues to accelerate, and there is more coming in terms of renewables, which will continue to change the dynamic of that market,” Mr Calabria said.

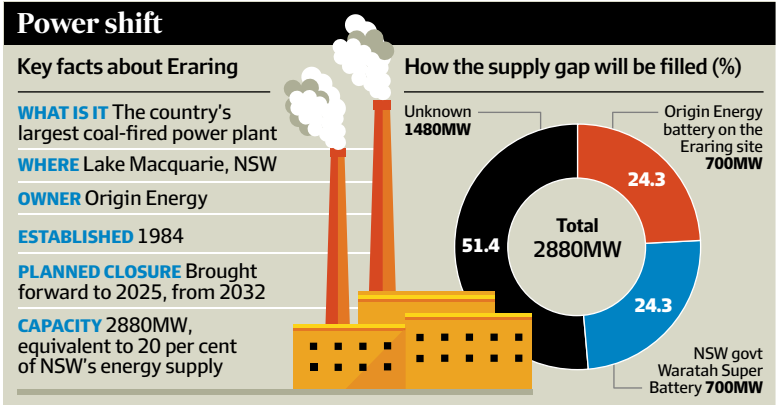
Origin posted an 18 per cent gain in underlying profit for the first half to \$268 million, buoyed by stronger gas prices, and increased its guidance for the full year. But the issues at Eraring contributed to a 56 per cent slump in electricity gross profit to \$222 million.

Origin’s bottom line profit for the December half remained in a loss, at \$131 million, dragged down by impairments. Underlying profit, which excludes one-off items, jumped 18 per cent to \$268 million, up from \$227 million in the December half of 2020, buoyed by Australia Pacific LNG in Queensland. Origin declared a dividend for the first half of 12.5¢ a share.

Mr Calabria said Origin’s energy markets business, which includes the retail arm, is still experiencing “challenging” operating conditions because of the record low wholesale electricity prices in 2020-21 which flowed through to customer tariffs in 2021-22 and higher costs for purchasing wholesale power.

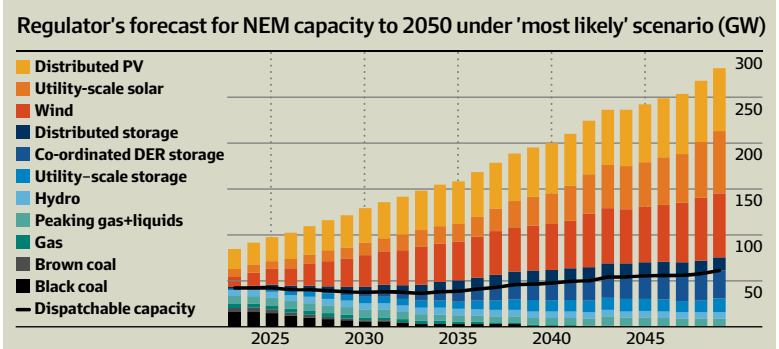


Origin group manager for operations Tony Phillips at the Eraring power plant in NSW yesterday. PHOTO: PETER LORIMER



Renewables will continue to change the dynamic of that market.

Frank Calabria, Origin CEO



Coal plants in the National Energy Market

Owner	Site	State	Closing	Capacity (MW)
AGL	Liddell	NSW	2023	1400
Origin Energy	Eraring	NSW	2025	2880
EnergyAustralia	Yallourn	Vic	2028	1450
CS Energy	Callide B	Qld	2028	700
Delta Electricity	Vales Point B	NSW	2029	1320
AGL	Bayswater	NSW	2033	2665
Gladstone Power Station	Gladstone	Qld	2035	1680
Stanwell Corporation	Tarong	Qld	2036-2037	1400
Stanwell Corporation	Tarong North	Qld	2037	450
EnergyAustralia	Mt Piper	NSW	2040	1390
CS Energy	Kogan Creek	Qld	2042	744
Stanwell Corporation	Stanwell	Qld	2043-2046	1460
AGL	Loy Yang A	Vic	2045	2240
Gippsland Power	Loy Yang B	Vic	2047	1160
Millmerran Power Partners	Millmerran	Qld	2051	852
Callide Energy	Callide C	Qld	tbc	840

SOURCE: FINANCIAL REVIEW, AEMO, COMPANY REPORTS