

Canberra, Spring Street and NSW coal to soften Hazelwood blow



Governments in Canberra and Victoria are preparing aid packages for the Latrobe Valley and its embattled community. **Paul Jones**

- By [Ben Potter](#), [Phillip Coorey](#), [Angela Macdonald-Smith](#)
Governments in Canberra and Melbourne are preparing aid to soften the blow in Victoria's Latrobe Valley when the Hazelwood brown coal power station closes in March, and are counting on surplus NSW black coal power to fill the gap it leaves in the energy supply market.

Engie of France, Hazelwood's 72 per cent majority owner, and minority owner Mitsui of Japan are expected to announce the highly polluting plant's closure on Thursday. It supports about 900 workers in the Latrobe Valley, where unemployment is high.

The closure will withdraw [up to 15 per cent of Victoria's electricity generation from the market](#), pushing up power prices and pressuring governments to update policies to provide more energy security and meet the challenge of new technology and climate change.

It may prompt the state government of South Australia – which depends on Victoria's surplus power when the wind doesn't blow – to press Engie to permanently re-open its Pelican Point gas-fired power station near Adelaide and to [court new gas generation as sought by BHP Billiton](#).



Hazelwood power plant's closure will be announced on Thursday. **Chris Hopkins**

Hazelwood's closure marks a turning point in Australia's energy history. Victoria turned to cheap, abundant brown coal in the 1960s, and built four large brown coal power stations to underwrite the state's manufacturing with low-cost power.

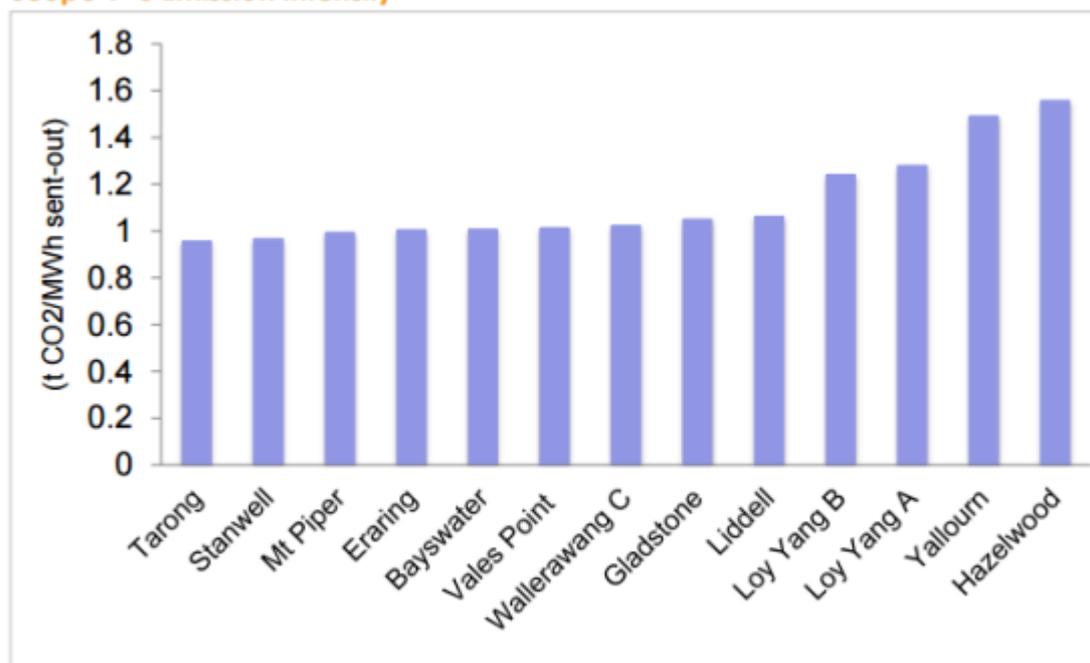
Now the state's industry is losing its historic energy cost advantage as climate policies mandate wind and solar energy, push out coal and leave high-cost gas power to fill the gaps, changing the dynamics of the National Electricity Market.

The big winner in the short-term will be [AGL Energy, which owns the Loy Yang A brown coal power station](#) – Victoria's next oldest after Hazelwood – and will be better able to extract higher prices from its Victorian customers, experts say.

Engie and Mitsui also own the much younger Loy Yang B plant, which will enjoy increased pricing power after Hazelwood closes along with Energy Australia's Yallourn plant.

Other targets

Scope 1+3 Emission Intensity



Sources: AEMO, IEEFA estimates

The Hazelwood brown coal power station is Australia's dirtiest. Chart shows tonnes of CO2 per megawatt hour of electricity.

But Grattan Institute energy program director Tony Wood said that while the owners of the Yallourn and Loy Yang plants would benefit in the short-term, they would also be the next targets for green activist campaigning for an end to coal power.

Spokesmen for Engie and Mitsui both said on Tuesday that "no decision has been made" on Hazelwood. Engie is reducing its coal power footprint worldwide, and its [chief executive Isabel Kocher said in May the company would likely close Hazelwood](#).

The fate of another large employer in Victoria's south-west – the Alcoa-owned Portland aluminium smelter – and that of about 2000 workers who depend on the plant, also hangs on Hazelwood's fate.

In August, [Alcoa terminated an electricity hedging contract](#) that was to take effect this week, on the expiry of a Victorian government power subsidy, in hopes that it could negotiate a better deal that would enable Portland to keep running.



Hazelwood's owners face remediation costs estimated at \$100m-\$300m. **Joe Armao** Hazelwood's closure will strengthen AGL's hand, giving it more options to sell Loy Yang A's power and increasing the likelihood that Portland will close, putting its 560 employees and a total of 2000 workers out of a job.

Victorian Industry Minister Wade Noonan said on Monday the government was working hard to keep Portland open. But government sources said the historic power subsidy – which is linked to weak aluminium prices and has been costing Victorian taxpayers up to \$130 million a year – would not be renewed in its current form.

Portland uses about 5000 megawatt hours of power a year – just under half Hazelwood's 10,000-12,000MWh of generation – and its closure would partially offset the tightening in Victorian supply from Hazelwood's exit.

Federal and state energy ministers have commissioned [a series of inquiries into the National Electricity Market's security and technology challenges](#) after South Australia's recent blackout and electricity woes, and climate policies are to be reviewed next year.

Solutions

In the short-term, NSW's black coal power stations, which cost more to run than brown coal and have been running at lower capacity loads, could also help offset any tightening in Victoria by ramping up production and sending their surplus to Victoria.

Victoria has long had surplus electricity and acted as a low-cost anchor for the NEM, but the state could now become a net importer of power at times of high demand.

Some experts say any increased prices are already in the market. Prices for electricity supplied in Victoria have surged by 40 per cent within the past 12 months as the market priced in the expected closure of Hazelwood, RBC Capital Markets said.

Prices for June 2017 power that had been trading at \$39.86/MWh in October 2015 are now around \$56, including a 3.7 per cent jump in the past month alone after Ms Kocher's comments in May heightened expectations of a near-term shutdown.

Industrial users of power are already facing big bill increases starting early 2017 given forward markets for electricity have already seen large price increases as they price in expectations that Hazelwood will close, said Jon Stretch, chief executive of ERM Power, which retails electricity to commercial customers.

"People are talking about what a disaster it will be for Victoria if Hazelwood closes down, what that is going to do with prices – [but] it's already happened, it's already in the forward price," he said at a PwC/Financial Review energy roundtable in Sydney.

"It may or may not happen but if you want to contract today for energy in Victoria – and there will be loads of businesses whose contract comes up first of the year – they are paying a price as if Hazelwood was closed but Portland was open."

Tony Wood said it was positive that the closure decision seemed to have been taken without either federal or state governments having had to fork out any funds, in contrast to the "contracts for closure" plan under the Labor government. Government may well still provide some support for structural adjustment in the Latrobe Valley, he said.

Assuming the generation will be replaced by production from the NSW black coal plants, the government will also be able to claim success on reducing carbon emissions, potentially to the tune of about 5 million tonnes a year, he said.