SPECTATOR | AUSTRALIA
FLAT WHITE

Chris Bowen is in denial about renewable energy

Australia will lose critical industries as coal-fired plants shut down

Getty Images

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China has cut off nearly all exports of rare earths, over which it has built a monopoly and which are essential to key products shows.

This shows how the world has become an even more dangerous place. It adds another dimension to the implications stemming from Australian governments' debilitating energy policies. Deliberately destroying the coal-based energy competitiveness, which we once had, guarantees de-industrialisation in a world where an increasingly powerful and belligerent China is an adversary. And trying to power minerals processing with moonbeam energy denies us a role as an alternative rare earth supplier.

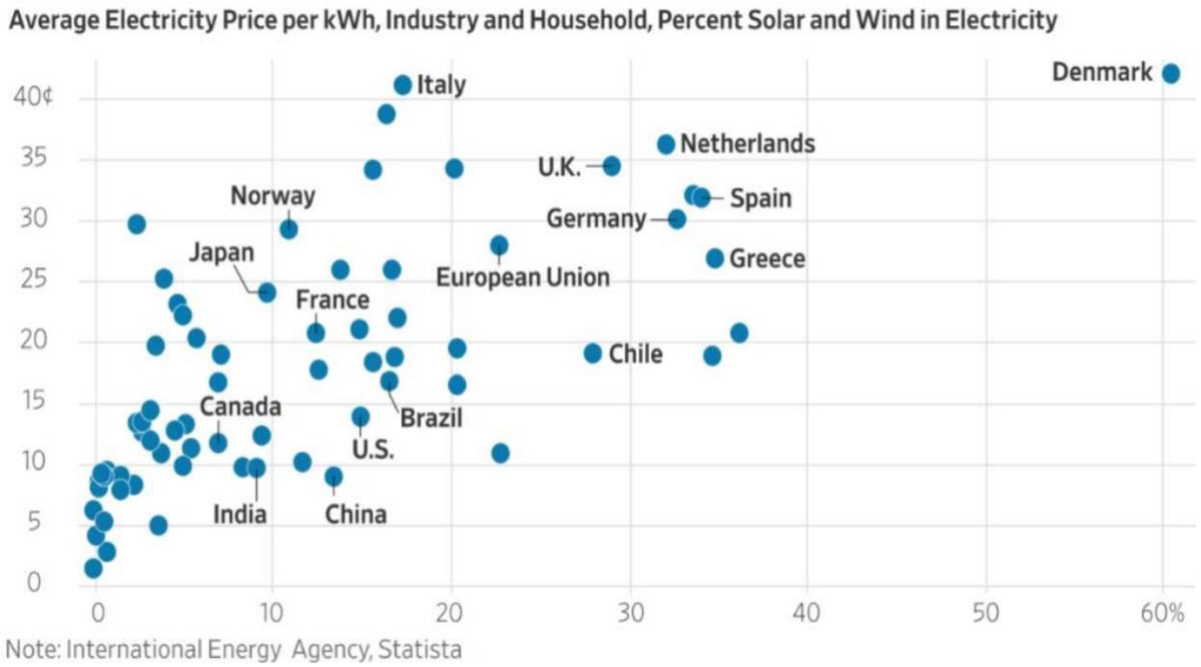
We've seen a continued procession of key industrial facilities being closed or subsidised as a result of the government-imposed toll of high cost energy.

Last week, Glencore's Mount Isa copper smelter snagged a $200 million a year subsidy that may or may not be sufficient to see it remain operating. But Rio Tinto announced plans to close the Gladstone coal powered generator (Queensland biggest) by 2029. That generator, which is crucial to the Boyne Island aluminium smelter, is being forced to operate at below capacity, and therefore unprofitably, because increasing supplies of subsidised wind and solar have priority despatch.

At the same time, the Queensland government announced a step back from the previously planned closure of its coal powered electricity generators. The new Queensland electricity plan also involves government funding to facilitate 400 MW of new gas generation in the short term and over 10 times this much over the long term. Queensland had already canned the extravagant $30 billion pump storage schemes previously on the cards.

But, oblivious to wind/solar's high cost and unreliability, Commonwealth Energy Minister Chris Bowen announced an acceleration of the program, whereby the government buys, at inflated prices, intermittent wind and solar energy and batteries under the so-called Capacity Investment Scheme (CIS). Purchases under that scheme are eventually to comprise 32 Gigawatts – coal supplies half of Australian current supply with 23 Gigawatts of capacity. On the most optimistic assumptions, it would cost more than a year's GDP to provide batteries to support renewables in a Net Zero emissions regime. And that's even before factoring-in the transmission a renewables based system would need.

Not only are wind/solar facilities worthless, but their presence in the market actually imposes costs by forcing the closure of the lower cost and more reliable coal generators. But, predictably Minister Bowen's response to the Queensland government's retreat from closures of fossil fuel generators was to ask it to explain why it disagrees, "with the warnings of independent bodies that have consistently said that unreliable, ageing coal is driving up bills for all Australians, including Queenslanders." Of course, the so-called independent bodies are government controlled or subsidy advocates; claims that wind/solar are cheaper are blown out of the water by the following these sorts of cross-country correlations of prices and the renewables share of energy markets.



The travails of Rio's Gladstone Power station (the biggest in Queensland) and hence the Boyne Island smelter are shared widely. Already all Australia's nickel smelters have had to close in the face of Indonesian competition using cheap coal generated power.

Australia's three other aluminium smelters are also under threat.

Tomago in NSW produces nearly two fifths of Australian aluminium. Energy makes up more than 40 per cent of its operating costs. Its supplier is AGL's Bayswater coal power station, which is due to close by 2033. Energy contracts run to the end of 2028 after which costs will double under present settings.

For its part Victoria's Portland smelter, located far away from power stations as part of the Cain Labor Government's industry policy, has compensatory subsidised low cost power. Following escalating generator costs (partly driven by increased royalties) it has had an additional Commonwealth/state subsidy since 2021 that expires at the end of next year. The smelter uses 10 per cent of the state's electricity supply.

Completing an aluminium quad-calamity is Rio Tinto's Bell Bay plant in Tasmania. This uses a third of Snowy Hydro's "green energy" but has no power contract beyond the end of this year. The Marinus link from 2028 will bring a fourfold increase in Tasmania's electricity export capacity to the mainland, where it is to perform "battery of the nation" duties. This involves balancing the subsidised wind/solar that is replacing coal. Once Marinus is completed, the smelter will no longer have a captive power source. An even more parlous future faces the Liberty Bell Bay manganese plant that uses 7 per cent of the state's energy and has the misfortunate of being chaotically managed by subsidy harvester Sanjeev Gupta.

Unfortunately, short of closing down the windmills and solar facilities, the roll out of subsidised renewable energy has left Australia with no clear options for restoring the nation's

previous low-cost reliable electricity supply. As long as they reap subsidies (and with the 13 per cent of supply from rooftop solar these have been largely pre-paid) the renewables will continue to undermine the commerciality of coal and, to some degree, less-capital intensive gas plant. Government support for additional more gas plants places additional pressure on the coal plants.

Faced with a similar problem, the Trump Administration has ensured that any new renewables are now subsidy free and face planning restraints.

The Administration had also proposed imposing a special tax on existing wind and solar facilities to offset the tax subsidies they had received. Those provisions were eventually dropped. But the problems created by wind and solar in the US are less than in Australia where their market share at 34 per cent is twice that of the US. If Australia is not to be saddled with 20 years of high-cost electricity resulting from two decades of the subsidies to renewables, provisions like those canvassed by the Trump administration will need to be implemented. But for the time being the political establishment is largely in denial about the existence of the problem.