

It's clear why coal struggles for finance – and the government can't change that

Written by Samantha Hepburn, Director of the Centre for Energy and Natural Resources Law, Deakin Law School, Deakin University

The federal government has announced a [raft of new measures](#) ostensibly designed to secure energy pricing, boost investment in new “reliable” energy generation, and improve competitiveness in the retail energy market.

At a meeting of state and federal energy ministers last week, it also [rejected the greenhouse emissions reductions](#) outlined in the previous [National Energy Guarantee](#), and proposed supporting new coal-fired power stations as part of a plan to boost investment in new electricity generation.

Read more: [***The Morrison government's biggest economic problem? Climate change denial***](#)

One of the main reasons new coal projects do not proceed is because of the “unquantifiable” financial risk of carbon. Clean Energy Finance Corporation chief executive Oliver Yates has [argued](#) that coal-fired power generation would not be financially backable without the government providing indemnity against future carbon taxes.

He may have meant it as a reason not to proceed with coal at all, but federal energy minister Angus Taylor has [signalled](#) that he is seriously considering such a move.

In outlining his policy position, Taylor has also effectively expanded the definition of new electricity generation to include [old facilities that would have been retired but may be revived with financial assistance](#)

Differing recommendations

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The federal government says its new proposals are based on recommendations made in a [July report](#) by the Australian Competition and Consumer Commission (ACCC), aimed at ensuring affordable electricity. But there are some key differences between the report's recommendations and the government's plans.

The crucial one, at least as far as coal's fortunes are concerned, is the [proposal](#) for the government to enter into contracts called "energy offtake agreements". Under this approach, the government would agree to buy future electricity at a set price, from new generation projects that could include coal-fired electricity from either new coal plants or refitted coal plants. This, the government argues, would keep power prices in line while also providing greater investment certainty and make energy projects easier to finance.

The ACCC report did indeed recommend underwriting new power generation investments, but not with the obvious goal of propping up coal. Rather, it recommended that this support be directed to "appropriate new generation projects which meet certain criteria", so as to reduce prices by boosting market competition.

It is hard to see how the government's desire to artificially sustain the life of coal-fired electricity – in the face of [ever-worsening economic prospects](#) – is consistent with either the ACCC's rationale of supporting sustainable, new generation energy projects in order to improve competition in the energy market.

Federal shadow climate change minister Mark Butler has indicated he would not support the inclusion of coal in any such agreements, and that the plan could [cost taxpayers billions](#).

Is coal 'new generation' or not?

Taylor has [argued](#) that the backing and guarantees for new electricity generation could well include coal, because "it may well be that the best options we have available to us are expansions of existing coal facilities".

But the reality, given our climate targets, is that coal can only be an option where it is supported by clean technology. And even the cleanest of "clean coal" is not on a par with renewable

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energy.

The latest generation of high-efficiency “ultra-supercritical” coal-fired plants are very expensive to build and run, particularly if they include carbon capture and storage – which they would certainly need to. If all of Australia’s existing coal plants were replaced with ultra-supercritical ones that did not include expensive carbon capture and storage technology, [emissions would fall by between 26 million and 40 million tonnes by 2030](#). But Australia’s climate target calls for a reduction of 160 million tonnes by that deadline.

On the other hand, with carbon capture and storage, the emissions reductions would be much greater, but the electricity could cost [up to three times the current wholesale price](#). This would mean the government would be effectively subsidising the production of electricity that is more expensive and more environmentally damaging than renewables.

Read more: [**Renewables will be cheaper than coal in the future. Here are the numbers**](#)

This raises the ultimate question of why – given Australia’s emissions targets and its responsibilities under the Paris Agreement – the government is prepared to subsidise coal-fired electricity at all.

There is no doubt that climate change is an important public concern. The attempt to characterise Taylor as “minister for getting power prices down” belies the fact that energy policy is not just about price and reliability, but about broader social and environmental welfare too. Electricity absolutely must be sustainable as well as affordable.

This is what [energy security means today](#). Carbon-intensive energy production is neither environmentally sustainable nor financially viable. It is that simple. That is precisely why the financial risks of carbon are so high.

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Samantha Hepburn does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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