

THE AUSTRALIAN

Liddell is a loss, but energy guarantee would light the way forward

JOSH FRYDENBERG THE AUSTRALIAN 12:00AM March 23, 2018

Australia's energy system cannot be left to the whims of the weather. When the wind doesn't blow and the sun doesn't shine, power still must be generated for households and businesses. This is why the Turnbull government has taken the lead in putting dispatchable power, including a greater focus on storage, at the top of the energy policy agenda.

Dispatchable power can be provided on demand, when and where it is needed. While it can come from a variety of sources, including gas, hydro, pumped-hydro, biomass and batteries, traditionally Australia has relied on coal-fired power stations to underpin the reliability of its system.

This is why the Turnbull government is concerned about the impact of the proposed closure of the AGL-owned Liddell Power Station in 2022.

With its 1800MW capacity, Liddell supplies more than 10 per cent of NSW's demand, including providing power for more than one million homes and contributing to the energy needs of large industrial customers such as the Tomago aluminium smelter.

In the light of Liddell's announced closure, we asked the Australian Energy Market Operator to assess the impact of AGL's replacement plan. AEMO's advice, released today, vindicates the government's concern about Liddell's closure and reinforces the need to ensure sufficient dispatchable power is in its place.

AGL has outlined a three-stage plan involving a combination of renewables, gas, batteries, demand response and 100MW upgrade to its existing Bayswater coal plant.

While AGL says it is willing to undertake all stages of its plan, the Bayswater upgrade is, according to AEMO, the "only committed resource at this point in accordance with criteria AEMO applies for determining new supply".

Without the implementation of AGL's full plan or equivalent investment by others, AEMO has concluded there will be an 850MW shortfall in dispatchable power. As AEMO puts it: "There remains a high risk of load-shedding following the closure of Liddell. Specifically, the analysis shows that once in every three years approximately 200,000 households in NSW may experience power outages lasting five hours."

Significantly, AEMO goes on to say that the economic and population growth in NSW is contributing to increases in electricity demand, which means "the risk grows every year".

More renewables in and of themselves are not necessarily the answer because, as AEMO observes, the output can be less than 10 per cent of the nameplate capacity of this form of generation under maximum demand conditions. What we need is more dispatchable power.

The existence of a major shortfall in dispatchable power following Liddell's closure would clearly present an unacceptable situation, undermining the stability of the system.

This is a serious challenge and not, as Bill Shorten called it, "an issue for down the track".

Given the long lead times necessary for investments in the energy sector, 2022 is closer than Labor thinks.

The focus must now be on driving more dispatchable power into the market. The government is doing its part through major projects such as Snowy 2.0, Australian Renewable Energy Agency-supported battery and pumped-hydro projects, and securing more gas for domestic use so that previously mothballed gas plants can come back on line.

Market participants have a key role too and this is why it would be preferable for AGL to commit as soon as possible to the next stages of its plan.

As outlined by the Energy Security Board, having the right policy framework to create investment certainty is also critical. The national energy guarantee, through its specific reliability obligation, will encourage the type of

investment Australia needs. This is a point underlined in the AEMO advice when it says “ideally an agreed national energy guarantee will serve as a market mechanism to address this gap” and the closure of Liddell represents exactly “the type of challenge the national energy guarantee is intended to solve”.

In the light of this unequivocal and powerful advice from the independent energy market operator, it is incumbent on governments at federal, state and territory level to get behind the national energy guarantee as our pathway to a more reliable and affordable energy system.

John Frydenberg is the federal Environment and Energy Minister.



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