

Finkel report assumes banks will charge excessive costs on coal power.

[David Uren](#), The Australian, 12:00AM June 15, 2017

The Finkel report has assumed that coal-fired power stations will face punishing financing costs — equivalent to those imposed by banks when lending to impoverished countries — to support its conclusion that consumers will face spiralling electricity costs unless there is an emissions reduction plan.

The Finkel prediction that electricity prices would fall under its favoured clean energy target assumes the cost of building renewable energy capacity falls by as much as 4.5 per cent a year until at least 2026, and 3.5 per cent a year beyond that.

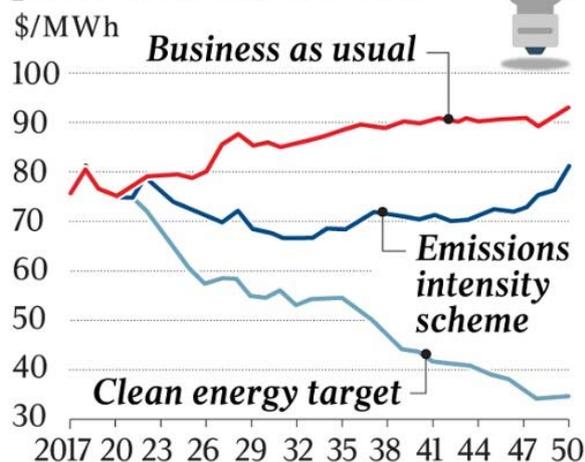
The economic modelling prepared for the electricity market review shows a CET would produce a massive fall in the wholesale cost of electricity, reversing the doubling of prices over the past five years. Prices would fall from \$75 per megawatt hour now to \$55 by 2030, and below \$40 by the early 2040s.

By contrast, if current energy policy remained, leaving the renewable energy target as the only means of supporting lower-emission electricity, wholesale prices would reach \$90/MWh by 2035.

The pivotal assumption in the economic modelling, prepared by consulting firm Jacobs, is that the policy uncertainty surrounding carbon emissions is pushing up financing costs, whereas adoption of a CET or the alternative emissions intensity scheme would end the debate. “Because the policy for achieving emissions reductions is now known with certainty, there is no risk premium applying to investment in new plant,” it says of the CET. “Policies are assumed to be perfectly credible.”

ENERGY REFORM

How wholesale power prices would be affected



Number of coal generator projects



	China	Japan	Germany
Under construction	147	6	1
Approved	59	9	0
Planned	226	27	4

Source: Jacobs, AEMO

By contrast, the modellers estimate the current uncertainty imposes a “risk premium” of 5 per cent to the cost of investments in coal generation (including maintenance), while there is a further 2 per cent cost for gas and 1 per cent increase for renewable energy.

The World Bank estimates that the risk premium for banks lending to ventures in countries such as Kenya, Bangladesh or Yemen is about 5 per cent. “Investors face high risks in investing in new emissions-intensive plants, with the perception that such new plant could become stranded assets if any mitigation policy was implemented,” it says.

It adds that owners of coal plants would only undertake major refurbishment or maintenance if assured of a quick payback. The modelling shows that emissions fall rapidly over the next 30 years under all scenarios, dropping by 53 per cent under existing policy with the RET and 61 per cent under a CET or EIS, reflecting the retirement of brown- and black-coal plants.

The modelling assumes coal power stations are closed as they reach 60 years, or start incurring losses, whichever occurs sooner. The Liddell power station in NSW is the next to close in 2022. No new coal-fired power is being built.

Under the existing policy, renewables would account for 52 per cent of power by 2050, compared with about 70 per cent under the CET or the EIS. The report assumes coal and gas prices continue to rise. Shortages will push domestic gas prices above international prices out to 2023.

The electricity market will continue to rely on coal and particularly gas as a flexible source of power to cover shortfalls from intermittent wind and solar supplies. Battery storage will not become feasible for significant capacity until after 2030.

However, these costs will be more than offset by the near zero cost of dispatching additional wind and solar power.