

Snowy 2: the policy of despair

Posted on [7:54 pm, January 10, 2018](#) by [Alan Moran](#)

Snowy Mark 2 as a pump storage is designed to use cheap off peak power to pump water uphill to a reservoir so that it can be used at a later stage when electricity prices are high. It does not create any new energy – in fact it requires some 15 per cent of the available energy to be used up in the pumping process.

Starting out with a \$1.5-2 billion estimated cost when announced by [Mr Turnbull](#) in March of last year, a heavily redacted [feasibility study](#) has now put the cost at \$3.8 to \$4.5 billion but this is likely to increase when a further iteration is published in April and excludes some considerable upgrade costs to the transmission system. Snowy would be hoping consumers would fund these though electricity rules ostensibly require the generation facility to cover such costs. Transmission costs are likely to be at least \$3 billion and [Judith Sloan's](#) speculative \$10 billion cost may well prove conservative.

Unperturbed and donning his political salesman's hat, [Minister Josh Frydenberg](#) endorsed the project but he would do that wouldn't he? He claims to favour Snowy 2 partly because, like all those wind farms, it creates "up to 5,000 jobs" presumably in construction. I bet the 5000 jobs could be multiplied many times over if the crews did not use modern machinery! The Minister suggested the alternative fast start generation would entail \$180 billion in Tesla power walls.

[Snowy's CEO](#) says "As for claims that the economics don't stack up — I refute them categorically. Snowy 2.0 can be funded off our balance sheet, while delivering a healthy internal rate of return of 8 per cent."

Well, he would need to get that through his shareholders. It would be easy to do this with the spendthrift Commonwealth which owns 13 per cent but the NSW (58 per cent) and Victorian (29 per cent) are less likely to agree. If the Commonwealth wished to proceed it would need to buy out the states but with an underlying profit after tax of \$411 million and booming prices as a result of the destruction of coal power stations the cost would be well over \$4 and might reach \$8 billion.

And let us not forget, the whole value concept is purely a function of the regulatory regime created by governments in favouring and subsidising renewable energy which costs at least twice the price of coal and requires the

kind of back up that the whole farrago about batteries and pumped storage has spawned.

The electricity industry suffers from having become the plaything of politicians and seeing its cheapest fuel, coal, having been successfully demonised by activists. As one comment from an insider said on a recent post

Many in my organisation don't believe in climate change but speaking out is risky. We now sit around and nod our heads to SSM, how awful it is that Donald Trump was elected and lament the terrible things the white person has done to aboriginal people. At one meeting a senior manager asked "aren't we happy that no more coal fired power stations will be built in Australia?" We all agreed it was wonderful.

The fact is the government's policies are leading to impairments for each of the energy companies' coal-fired assets. The middle-of-the-road shareholder might be annoyed by that. However companies are more concerned about loud minorities which turn up at their general meetings. There are increasing numbers of green board members.

Unhappily, there is more anguish before us with future prices now estimated by the Prime Minister to be over \$110 per MWh, double those that would prevail if only the industry had been left alone, and a constant wind/solar-induced unreliability knife edge. The propaganda continues unabated with a new chatbot launched today by the no-longer-taxpayer-financed ["Climate Council"](#) providing the electronic media with attractive and scary footage of reef distress heat waves and hurricanes.

Nothing is inevitable but common sense will hopefully emerge as the absurdity of the Paris Accord is understood and the damage to the economy becomes apparent alongside the demonstration effect of a booming US economy that has rejected carbon taxes.

Unpicking the distress regulatory meddling has caused will involve new generator investment, (probably by Chinese who are less susceptible to green pressure). In the interim we will likely see a panicky government forbidding the 2022 closure of the NSW Liddell power station its policies have produced. Part of this will entail spending the \$900 million in investment necessary to keep it operating at close to capacity.

It will however be some time before the industry again operates on the autopilot that in the decade to 2005 gave us the cheapest electricity in the world.