

Committee Secretary
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

11/11/2016

Dear Committee,

Thank you for the opportunity to make this submission and to appear at this week's hearing.

Energy systems are changing whether we like it or not. Currently there is a lack of policy to ensure that this change is orderly and just. There are already examples of communities that are being affected by these changes and the current policy vacuum.

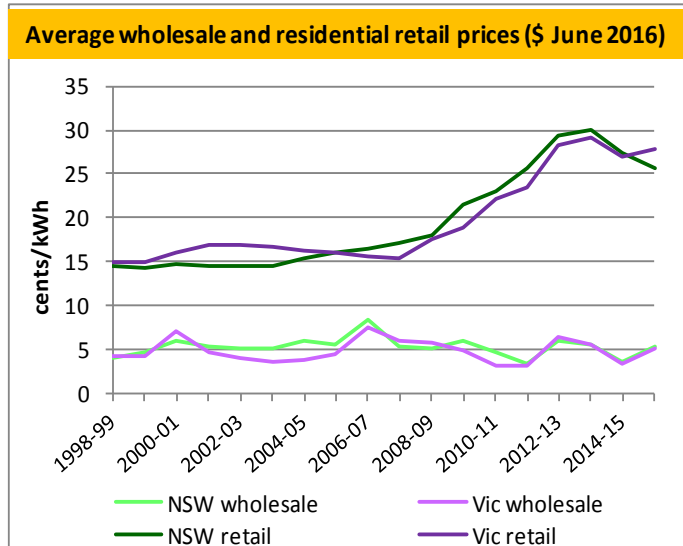
The Australia Institute has published many reports and submissions related to coal mining and coal-fired power. I will attach two recent research reports to this submission:

- *Two Birds, One Little Black Rock: Solving the twin problems of incentives for retirement of coal fired generation and funding rehabilitation liabilities.* This report explores a levy on coal production to fund a reverse auction system to provide incentives for retirement of coal-fired power stations.
- *Never gonna dig you up! - Modelling the economic impacts of a moratorium on new coal mines.* This report shows that Australia has already approved large volumes of coal production into the 2040s. It quantifies the very small economic impacts of a phase out of coal production through a policy of approving no new coal mines or major expansions.

We have also written supportively of market-based approaches such as carbon pricing and the Climate Change Authority's proposal for an intensity market. Not all of these policies could or should be implemented together – each has varying economic, social and political advantages and disadvantages. What is clear is that there are a range of policies that governments can implement to manage the transition of the energy system and to ensure it is a just transition, as unions and other stakeholders are rightly calling for.

It is important to note that much of the discussion around energy prices and the closure of coal-fired power relates to wholesale power prices, not retail prices. While wholesale prices

are of great importance for participants in the National Electricity Market, they are of limited importance for households. This can be seen from price data and charts in the latest issue of Cedex, published by The Australia Institute, which I will attach to this submission. The chart below shows that wholesale energy prices have hardly changed this century, while retail prices have doubled:



While the data in the chart relates only to Victoria and New South Wales, the point is valid in all states – wholesale prices have only a limited relationship with retail prices. In the political debate raging around coal-closure, decision makers should realise that much of the discussion on prices has little relevance to household bills which are also affected by transmission and retail sectors.

The Institute has been extensively involved in planning issues around coal in New South Wales and Queensland, both in relation to domestic supply to coal fired power stations and coal export projects. In the hearing I raised two examples near Lithgow and Dunedoo, NSW.

Lithgow is a traditional coal mining area, but its mines are generally small, high-cost and far from ports. As they are at a disadvantage for export, during the coal downturn they have come to rely ever more on the local Mount Piper Power Station and the now-closed Wallerawang Power Station.

The financial distress of the Lithgow mines suits Energy Australia, the Hong Kong-listed owner of the power stations. In particular, Energy Australia has sought to keep the Invincible and Cullen Valley Collieries operating, as these mines cannot export due to quality issues and lack of infrastructure. Without the option to export, the power stations are the only market for these mines.

Expansion plans for these mines have been rejected twice by the NSW Planning Assessment Commission due to their potential impacts on nearby spectacular sandstone “pagoda” formations. The plans were rejected despite Energy Australia’s claims that expanding the mines would help Wallerawang stay operational and assist with costs at Mount Piper.

In analysis submitted to NSW planning authorities, Energy Australia argued that the mine expansion would enable them to produce more electricity and to push down electricity prices. At the same time, Energy Australia wrote to their shareholders saying:

We have also taken steps to respond to the oversupply situation on the generation side by rationalising our generation portfolio. As we expect the external market to remain difficult in the years ahead, we will continue to optimise our business, strategy and structure in response to changing market conditions.

In other words, Energy Australia told NSW Planning that they intended to generate more electricity if mines were expanded, passing savings onto households. They also told their shareholders that they would produce less electricity and pass any savings in coal costs on to them as profits. I will attach our submission to the Planning Assessment Commission that goes into this episode in detail.

At the moment, another proposal to expand the Invincible and Cullen Valley mines is being proposed by ethanol producer, Manildra. Manildra claims:

The primary purpose of the Southern Extension Project is to obtain a reliable and cost effective source of specialty nut coal for use in Manildra’s Shoalhaven Starches Plant located at Bomaderry on the NSW south coast.

It seems more likely that the “primary purpose” of this proposal is to gain a project approval that can then be sold to Energy Australia. The value of nut coal claimed in the economic assessment makes up just 19.5% of the total value of coal produced. The other 80.5% is coal to be sold to the Mount Piper Power Station.

The lack of state and federal policy around the future of coal-fired power is contributing to these destabilising proposals that impact on the community of Lithgow. Energy Australia is determined to operate its power stations for as long as possible, as cheaply as possible. In the absence of some policy direction, the conflict over these mines is bound to continue. I will attach our recent submission on the Invincible Colliery expansion proposal, which addresses these issues in more detail.

Dunedoo is the town nearest the proposed Cobbora Coal Project, which was to supply cost-price coal to NSW power stations. Hopelessly uneconomic, it was to be operated by a NSW government-owned company, Cobbora Holdings. Despite the economic and environmental

problems associated with the proposal, a lack of state and federal policy on coal fired power contributed to it being approved by planning authorities.

Cobbora Holdings bought out many farms in the area, reducing the local population and putting pressure on the community of Dunedoo. As energy markets and the politics of electricity and coal changed, the project was abandoned leaving no mine and a diminished community. NSW taxpayers paid compensation to electricity companies and also for a fund to compensate the community. The Australia Institute's submissions on Cobbora are specific to planning documents. I would be happy to expand on this issue if it is of interest to the committee. A good general discussion can be found in this article in the Sydney Morning Herald: *State scraps Cobbora mine and will pay liabilities*.¹

These examples demonstrate that the lack of policy to help shift away from coal-fired power is having a real impact on local communities. Australia's slow progress on this transition is also having an impact on the world's climate. I hope that this committee's work can assist with these local and global issues.

Best regards,



Rod Campbell
Research Director
The Australia Institute

¹ <http://www.smh.com.au/business/state-scraps-cobbora-mine-and-will-pay-liabilities-20130701-2p7jq.html>