The Oil Drum: Australia & New Zealand
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Woodside to triple size of Pluto ?

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While most of the media attention in the Australian energy sector was focussed on the big deals done by the Gorgon consortium, Woodside also got some press after announcing plans to triple the size of the Pluto LNG plant by 2014, beating both Gorgon and Chevron's proposed Wheatstone plant into production (The Australian - Woodside steps on gas to triple size of Pluto).

The two new Pluto LNG trains will boost production from the project from 4.3 million tonnes a year to 12.9 million tonnes. At this point Woodside doesn't have sufficient gas reserves to supply these, but CEO Don Voelte is claiming the gas will come from a mix of third-party gas, existing discoveries and a new 20-well Carnarvon Basin drilling program the company will start in the coming months.

Photo credit: flickr/almanaf74

Voelte is also pushing the line that gas is a "transition fuel" on the way from coal to renewables -

something we are seeing a lot of lately. “LNG is going to be a great transition fuel as we all stride to get to renewable alternatives. China along with Taiwan, Korea, Japan -- all are increasing their LNG demands over the coming years.” (Bloomberg - Woodside’s World-Record LNG Targets ‘Not a Stretch’).

Alan Kohler at The Business Spectator has also been arguing for gas as a transition fuel, suggesting that our worst carbon emitters - Victorian power stations using brown coal - should be converted to burn gas instead (Business Spectator - Gas is the natural choice for Latrobe Valley).

> The intensifying race to build mass-market electric cars means the Rudd government will have to rethink its carbon pollution reduction scheme.
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> All the modelling that shows electricity demand declining as the price rises due to carbon emissions trading will have to be thrown out. Power demand is going surge again, as it did with the rapid take-up of household air conditioning.
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> It means, in my view, that the government will have to find a way to convert Victoria’s Latrobe Valley power industry from brown coal to gas.
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> Tesla Motors, which is shipping more than 100 lithium-battery-powered cars a month out of its factory in California, claims to get mileage of 12.7 kilowatt hours per 100 kilometres. That means your standard 15,000 km a year per car will add 2 megawatt hours to household power consumption – a 33 per cent increase on the household average. Two cars will double most family’s power consumption.
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> Don’t think it won’t happen, and fast. Bruce Mountain of Carbon Market Economics says that at current prices it will cost around $300 a year to power an electric car, compared to $2,300 a year for a standard 6-cylinder petrol-driven family car. And what’s more the Tesla is supposed to go faster than a Porsche, so with the latest technology there will be no reasons not to make the switch.
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> Nissan has just unveiled the Leaf, Chevrolet has the Volt, Mitsubishi the MiEV and BYD Co of China is also making electric cars. In Australia, Evan Thornley has jumped out of politics into Shai Agassi’s business, Better Place, which calls itself the world’s leading electric vehicle services provider, and will be pushing hard to encourage take-up here.
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> Last night the German government became the latest to jump on board the electric bandwagon, announcing a plan to put a million electric cars on the road by 2020. It is planning to spend $US1 billion on battery research over the next three years so Germany doesn’t have to replace oil imports with battery imports.
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> While all this may be excellent news for the planet, it’s an awkward development for the Rudd government.
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> Australia’s greatest carbon reduction problem is that we have the world’s greatest reliance on coal-fired power generation, and in particular on brown coal – the worst possible fuel for carbon emissions.
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> This country’s carbon reduction challenge really boils down to this: how do we make the transition from brown coal in the Latrobe Valley to gas base-load power. ...
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> In the meantime the renewable energy target legislation – decoupled from the CPRS and passed by the Senate this week – is supposed to kick start the building of wind and gas turbine generators.

> But this will not cut it – the RET scheme is really just another rent-seekers' cash shower, and won't work much anyway because most of the RET certificates will come from households buying solar hot water and heat pumps.
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> It's all about how to close down the Latrobe Valley mines and replace them with gas. Even black coal generation would do.
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> The simplest way for Australia to meet its entire commitment to greenhouse gas reduction under any scheme that might be devised in Copenhagen would be simply to convert the Latrobe Valley generators to gas.
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> It would, in fact, be the most efficient thing to do in many ways, since they already have the rotors, switching, transformers, transmission lines out, access to water and plentiful labour from people who will otherwise be out of work as a result of the CPRS.

Kohler touches on the same subject in an interview with Origin Energy CEO Grant King (Business Spectator - KGB INTERROGATION: Grant King).

> **AK**: I mean there's another element to it which is also political, which is the regional development issues concerning the Latrobe Valley, which I presume the Victorian government is extremely worried about.
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> **GK**: But the reality is the Latrobe Valley, in our view, will be generating power in 2020. The total megawatts of output in the Latrobe Valley may be less, should be less in order to reduce carbon. Most of the power stations will still be running. Most of the people working the power stations will still be working there. The average cost of generation will go up for a coal-fired generator and as Karen says they will therefore bid a different price into the market and they will be dispatched according to their competitiveness against all other forms of generation.
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> **AK**: Well do you think they could be using gas instead of brown coal?
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> **GK**: To give you a different example, it's just an exercise in logic. If brown coal power stations operate as they do at 0.8 emissions intensity, simply because of the lower carbon intensity of black coal. The interesting and simple puzzle is that Victoria ought to import black coal into Latrobe Valley, right, because they've nearly halved their carbon emissions, ok, and you're not going to find that as a realistic option preferred because Victorians will not be overly enthused about importing New South Wales or Queensland black coal, right, but if you really just think about it as an economic and technical problem, then you would simply substitute less carbon-intensive fuels for more carbon-intensive fuels.
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> It's important to remember that black coal is far less carbon-intensive than brown coal and if you substituted black for brown, you would have an enormous reduction in carbon emissions in Victoria. Now, the other way of getting there is these coal-drying projects, where the aim is to make brown coal like black coal and so it's very important and when you go back to the compensation arguments, it's very important to understand that what the brown coal generators own is two assets; a brown coal resource and a power station built to run on brown coal. If coal-drying works, then that reduces brown coal's carbon. The carbon in terms of our brown coal begins to look more like black coal and there is still substantial value in the resource that's owned by those generators and therefore why should they be compensated for it.

AK: Well, why do you think parliament is blocking the ETS and passing the RET?

GK: Look, my view – and I guess I'll rely on you guys to understand the difference between a kind of a personal view and a logical, reasoned view, not that there's a difference – but I think the community intuitively believes that renewable energy is good, that irrespective of carbon our fossil fuel resources are finite and therefore intuitively no matter what the cost and I'm not sure people really do understand the cost, but intuitively no matter what the cost, it is a good and worthy thing to increase our understanding, knowledge, pricing and competitiveness of renewable energy. I think that that is gaining momentum to the point where the if you like the concern particularly by business around the impact of the CPRS has brought complexity to that debate to the point that the community is less clear about the benefits of making that change and particularly when that change is expressed in the consequence or in terms of job losses which clearly quite now is a matter of great concern to the community.

Now, I think it's fair to say that we in the gas industry see a change for our fuel type from coal to gas as job-creating, but that certainly people have been much more willing to buy the argument that the CPRS is a job destroying initiative and for those that have wanted to advance that argument I think it's created some momentum. I mean it's created some traction in the community. Now, I don't know whether that is the true reason and that is my opinion, but that almost always political alignment occurs when community alignment occurs and, you know, political division exists when community division exists.

On the subject of the RET, Crikey's Bernard Keane isn't particularly impressed with how the lobbyists have been handled by the government (Crikey - Sucking the RENT out of RET).

The capacity of the Australian Parliament to bastardise good policy and turn it into a feeding trough for rentseekers and other parasites is truly remarkable.

You can't move in this place or open a paper without the bottom-feeding filth of the political economy springing out, hands extended, threatening disaster unless they can fasten tightly onto the public teat. And it's getting worse, as more and more sectors heed the example of lowlifes like the Minerals Council of Australia and come in for their chop.

The Coalition and the Government managed a deal yesterday on the Renewable Energy Target, or what's left of it. Just in the nick of time before a Question Time in which the Government would assuredly have contrasted its success in facilitating the Gorgon deal with the inability of the Coalition to even agree amongst themselves on a bill they had committed to support.

In the event, Western Australian backbenchers — Mal Washer and Judi Moylan honourably excepted — found another way to ruin Malcolm Turnbull's afternoon, but the Coalition demonstrating it is a rabble is now so common as to no longer be newsworthy.

Bear in mind that the RET is a dud idea improved only by the fact that the Government's ETS is even worse. As Ross Garnaut noted, a renewable energy target should be wholly unnecessary and in fact counter-productive if you have a proper emissions trading scheme that will allow the market to effectively respond to the price of carbon emissions.

But now that's the counterfactual. The Government's ETS will be almost completely

ineffectual (and may be rendered entirely ineffectual in negotiations between the Government and Opposition over the next couple of months) and that means the RET is now the only game in town in terms of driving any sort of move to a lower-carbon economy.

It already had flaws, like the bizarre solar multiplier component, in which solar panel power will generate five times more credits than it should generate, artificially bumping up the scheme.

But the RET, like the Government's emissions trading scheme, has been further degraded by rentseekers and whingeing industries demanding a free kick. As Lenore Taylor notes this morning in a great little piece, the industries eligible for "interim assistance" under the RET bill were initially only a small number with an electricity intensity above a certain threshold of megawatt-hours per $million revenue. That, as the Government's own explanatory memorandum made clear, was expected to include only the aluminium smelting, silicon production and newsprint manufacturing sectors.

Well, scratch that, because under the deal with the Coalition everyone who is getting a handout of free CPRS permits will now be getting assistance under the RET bill, at the same thresholds, for the cost of Renewable Energy Certificates. And if the price of price of RECs goes above $40, there'll be additional assistance for big electricity users for complying not just with the RET but with the current renewable energy target of 5%. At least the CPRS debacle hasn't yet led to the softening of existing greenhouse reduction schemes.

Now, bear in mind that those big electricity users are going to enjoy a fall in the cost of wholesale electricity as a consequence of the RET, because it will bring renewable energy sources online that big users won't have to pay for, increasing overall generation capacity. That will go straight onto the bottom line of big electricity users, at everyone else's expense. ...

There are a number of reasons why we now have a political system apparently structured to reward the basest instincts of our business sector. The proliferation of lobbyists — frequently former politicians and staffers — is one. The rise of economics consultancies who will "model" any outcome clients want — and the unwillingness or inability of journalists to call bullshit on such modelling — is another. The finely-balanced nature of the Senate also plays a role, especially when unpredictable dropkicks like Steve Fielding hold a swing vote. But ultimately it's because we don't have politicians — on either side, but this is primarily a fault of the Government — apparently capable of resisting rentseeking. At least John Howard knew a try-on when he saw one, and refused to let the GST be ruined by concessions until he absolutely had to when confronted with Meg Lees. Paul Keating sent rentseekers of any kind away with a black eye and a warning not to come back. Bob Hawke was adept at crafting outcomes that looked after those genuinely affected by reforms without undermining what he was trying to achieve.

Oh for a small part, just a lousy bloody fraction, of that sort of political courage now.