Obama’s climate push brings risks and rewards

AFR 27 Jun 2013

A crackdown on coal generation will free more American coal for export to Asia. **Photo: AP**

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To summarise Barack Obama’s climate change speech: the coal industry gets it in the neck, but not until about 2020 – and oil and gas get a leg-up.

Australia, for its part, sees threats and opportunities for its export coal and liquefied natural gas sectors. Some will take years to materialise. Others will emerge quickly.

The US President wants the Environmental Protection Agency to regulate carbon emissions from existing power stations. Although worded neutrally, this is aimed at the heart of coal – which emits twice as much carbon as natural gas.

Still, the new regulations could be an event for the next decade.

“We continue to expect any meaningful implementation of carbon standards on existing sources to be a [circa] 2020 event,” said Julien Dumoulin-Smith, head of utilities research at UBS.

US coal company shares shrugged at the speech. They’re already under huge pressure from cheap gas and the assault on new coal generation under way for the past several years.

Peabody Energy rose 1.1 per cent to $US15.02 ($16.19), but its stock is down from $US27.72 on January 7. Walter Energy rose 7 per cent to $US11.35, a fraction of its $US39.96 high for the year.

If the new rules for existing power stations are as effective as proposed rules that have frozen new coal-fired power plant construction, coal generation could eventually come under even more pressure in the US.

The good and the bad

For Australia, the threat is that the crackdown on coal generation will make even more cheaply produced American coal available for export, including to Asian markets currently served by Australia’s high-cost mines.

The opportunity is that Obama’s attack on carbon emissions comes with sweeteners for lower emissions technologies, including carbon capture and sequestration (CCS).

There's an additional $US8 billion for advanced fossil fuel technologies. Coal generators may also see an incentive to invest in CCS and other technologies to reduce carbon emissions to more acceptable levels, if natural gas prices rise again.

The reality check on that is that CCS is costly – in financial and energy terms – and unproven commercially. And natural gas is cheap in America, even though the price has increased from last year's rock-bottom levels.

CCS continues to look a stretch unless other big energy users without ready access to cheap natural gas – such as China, India or Japan – decide to make a big effort.

Under Obama's plan, they won't get US government funding unless they use CCS. Still, the US "works with China, India, and other countries that currently rely heavily on coal for power generation to advance the development and deployment of clean coal technologies", Obama's plan says.

The US also leads the Carbon Sequestration Leadership Forum, with 23 other countries.

That's not joyful news for Australian thermal coal suppliers, which are already battling plunging coal prices and the China slowdown.

But there's a sliver of hope there.

Shale revolution continues

Of course, renewable technologies occupy pride of place in any Obama climate strategy. But natural gas and nuclear power are also designated "clean energy" sources, while oil is crucial to America's increasing energy independence.

The shale revolution is increasing energy independence and reducing carbon emissions. US emissions have fallen faster than those of any other country since 2006 – about when the shale boom got under way – and are back at early-1990s levels.Shale has helped put the US well on the way to achieving the President's target of a 17 per cent reduction in carbon emissions from 2005 levels.

Obama isn't buying the idea that shale is a con that's smuggling vast quantities of greenhouse-intensive methane into the atmosphere from leaking wellheads.

"We should strengthen our position as the top natural gas producer because, in the medium term at least, it not only can provide safe, cheap power, but it can also help reduce our carbon emissions," he said. The EPA recently slashed its estimate of so-called "fugitive" methane emissions from natural gas wells by 20 per cent, or a total of 850 million metric tonnes, from 1990 to 2010.

Over the same period, US natural gas production surged 40 per cent, thanks to the development of horizontal drilling and hydraulic fracturing or "fracking" of shale rocks and other "tight" formations that were previously inaccessible to producers.

Obama wants to promote America's technologies for the safe development of shale gas to the rest of the world – which is years behind – and exchange lessons on sustainable production methods and "pricing".

"Going forward, we will promote fuel-switching from coal to gas for electricity production and encourage the development of a global market for gas," the Obama plan says.

Impact of US LNG exports uncertain

Cheniere Energy, the first US LNG export hopeful to receive a licence, says it will be able to deliver gas to Asia at a cost of $US10.60 per million British thermal units from late 2015, at a Henry Hub price of $US4 per MMBTU.The prevailing price under the oil-linked contracts that Australian LNG exporters have long used in Asia is $US14-$US15, although these have come under pressure.

Obama has embraced the prospect of US LNG exports, even though they're subject to project-by-project approval and opposed by some domestic industries. The Energy Information Administration expects America's LNG exports will rise steadily from a standing start in 2015 to about 31 million tonnes of LNG annually from about 2027.

Rising US LNG exports could threaten Australian exporters, which are part-way through a $200 billion investment binge aimed at boosting exports. Still, Obama's carrot for a global gas market – and stick for coal – could boost the size of the market, ensuring sufficient demand for all, including Australian exporters.

Royal Dutch Shell already expects global demand for LNG to double from about 250 million tonnes per annum today to 500 mtpa by 2025. Asia – at than 300 mtpa – will be the biggest market.

That's where Australian LNG (and coal) producers should sit up and take notice. "Pricing" in America means taking the low Henry Hub domestic price and adding a margin for liquefaction and transport.

The Australian Financial Review