

NSW's Eraring move shakes up Brookfield's \$18.7b Origin tilt

New South Wales will negotiate with Origin Energy over a possible extension of the 43-year old Eraring Energy power plant after heeding warnings from the market operator.



[KATE BURGESS](#) 5 Sept 2023



Eraring Power Station near Newcastle, NSW.

The New South Wales government's decision to negotiate with **Origin Energy** over the possible extension of the 43 year-old Eraring coal fired power plant adds potential twists to Brookfield's \$18.7 billion bid for the ASX-listed gentailer.

Penny Sharpe, the NSW energy minister, today confirmed that the **Minns** government would initiate talks with Origin on a possible extension of the 2.8GW Eraring beyond its scheduled August 2025 closure date.

Origin Energy will be in a strong position in these negotiations, market watchers say, since the company has already flagged the closure of the plant and made plans for life beyond it. The cost of extending Eraring's life has been estimated at between \$200-400m per year. Eraring is profitable but if Origin is able to extract a good deal, it may add weight to arguments in the market that Brookfield is underpaying for the company.

Secondly, Brookfield's Energy Transitions Fund, which would house the Origin Energy Markets business, has strict emissions reduction targets for all of its portfolio companies, in addition to financial return hurdles. Brookfield would not comment on the Eraring decision nor whether keeping the plant open would be inconsistent with its investment mandate, or whether its own investors would be supportive of the move.

The move to keep Eraring open was a recommendation of energy expert **Cameron O'Reilly's** review of the state's electricity system that the minister released today along with a government response of the steps it would take to shore up generation capacity.

"We're not wanting coal-fire to be open one day longer than it needs to," Sharpe told reporters at a press conference this morning. "We want to make the transition smooth so that our future is secure when it comes to the real crisis, which is also climate change."

Sharpe did not confirm the costs of keeping the 43-year old Eraring open or by how long the government wanted to extend its life.

Origin Energy did not reveal whether it supported a life extension but said in a statement it would "continue to engage with the NSW Government to find [an acceptable] path forward that can help navigate the economic challenges facing the plant and avert any risk to the reliability of electricity supply in the state".

Macquarie analyst Ian Myles said it was unlikely Origin would have proceeded with the closure of the Eraring plant, even if the government had not flagged measures to keep it open. "We never thought they'd close in 2025 — we thought they would wait until Snowy Hydro was up and running. "Now that Snowy has been delayed, a more natural point would be Central West Orana opening in 2027/28."

Reliability risk

Eraring Energy is the largest generator in Australia's largest state and supplies a quarter of its electricity. The O'Reilly report warned of serious reliability and affordability implications if the plant is shuttered in two years' time. "Eraring is a profitable asset and has a decade left of its technical life. Origin Energy has a very large existing customer base it cannot yet supply without Eraring," the O'Reilly report stated.

“It is also clear that the interests of NSW and Origin Energy are aligned in key respects: meeting emissions reduction targets by 2030, shielding NSW customers from volatile global energy prices and accelerating private investment in new renewables.”

The Australian Energy Market Operator last week warned of reliability gaps following an Eraring closure in its Electricity Statement of Opportunities. “Forecast reliability gaps identified from 2025-26 align with the retirement of the Eraring Power Station,” the ESOO report noted.

O’Reilly’s report was completed in August but the government held off from publicly releasing it until it had seen AEMO’s forecasts, which provide further justification for an Eraring extension.

The AEMO report suggested that a partial extension of one or two of Eraring’s 720 MW units could help boost the reliability of the state’s electricity system until enough renewable energy projects come online to replace the outgoing capacity.

Coal clunker

Former NSW state Treasurer and Energy minister Matt Kean criticised the Eraring move, claiming it could threaten the state's credit rating.

Energy analyst Tim Buckley contests O’Reilly and AEMO’s views on the ability of Eraring to boost electricity system reliability. “Extending the life of a coal clunker that is one of the oldest power plants in the electricity system is not a way to boost reliability.”

Keeping Eraring open will generate around 9 million tonnes of additional CO₂ emissions a year — around 2.8% of Australia’s total — and cost \$1.2 billion to offset via the purchase of Australian Carbon Credit Units (ACCUs), a recent Nexa Advisory report found.

[Brookfield's Origin bid](#) is before the Australian Competition and Consumer Commission, which is expected to make a decision on the deal later this month.

Buckley has previously said NSW could provide the necessary replacement capacity for Eraring by continuing its buildout of 1.2 GW of solar power and building 1.2 GW of utility-scale wind and solar annually.

The Nexa report suggested that the state could accelerate the timing of firming auctions and bring on additional “insurance” capacity in its Renewable Energy Zones, as well as support emerging technologies such as flow batteries and liquid air energy storage.

The federal government could provide underwritten Power Purchase Agreements for new renewable generation and storage projects, Nexa also recommended.

Check up

The O'Reilly report, dubbed "The Check Up", makes 54 recommendations about how to improve the state's electricity system. It calls for a coordinated effort to oversee future coal power station closures via a new Energy Target Security Monitor.

The government will attempt to expedite the sluggish pace of renewable energy project approvals through the planning system and focus on connecting more projects in places outside its designated renewable energy zones (REZs). Meanwhile, it will also develop a Consumer Energy Strategy to push small scale solar projects.

Just four new wind farms have received planning approval in NSW since 2018, and only one since May 2021, according to recent research from consultancy Rystad Energy.

<https://www.capitalbrief.com/article/nsws-eraring-move-shakes-up-brookfields-187b-origin-tilt-c316f8f4-c34f-46af-b2ac-2068716722f5/>