

August 24, 2011

## **Subject: Financing of HRL coal power station in Australia**

To whom it may concern,

We are writing to seek clarification regarding your position on the proposed Dual Gas Pty Ltd (owned by HRL Pty Ltd), a 600 MW power station (combined brown coal and gas) in Victoria's Latrobe Valley, in Australia. As your bank may be approached to finance this project, we would like to draw your attention to the enormous problems and risks associated with this venture.

This proposed power station is of particular concern to BankTrack and Greenpeace, for the following reasons:

Emissions intensity:

- The emissions intensity of the plant would be 0.8 tCO<sub>2</sub>-e/MWh, twice the OECD average for power generation and significantly higher than best practice fossil fuel power generation.
- The total annual emissions would be more than three million tonnes, exposing it to a carbon liability upwards of \$73 million per year due to the introduction of a carbon price in Australia.

Community opposition:

- An unprecedented four thousand public submissions (more than 99% of those received) were made to the Victorian EPA in opposition to the proposed HRL plant.
- Several protests have taken place in Melbourne in opposition to the project, attended by hundreds of Victorians at a time.
- A recent survey found that 72% of Victorians thought their future energy needs should come from renewable energy and energy efficiency. Only 12% supported building new coal power stations.<sup>1</sup>

Financial risk:

- The HRL plant is reported to cost \$1.3 billion, an increase by over half a billion dollars since September 2010. The only funding so far secured is \$150 million in government grants and in May 2010 all of Australia's "big four" banks (National, Commonwealth, ANZ and Westpac) went on record declaring they were not associated with the project.<sup>2</sup>

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<sup>1</sup> Essential Research


<sup>2</sup> The Age, 21 May 2011, *Big banks 'no' to coal plant.*

- The largest grant to HRL - \$100 million from the federal government – is at risk. The federal energy department appears to be losing patience with HRL after awarding the grant in 2007. HRL has been given until the end of the year to meet the conditions of the grant.
- Due to lack of experience worldwide in building integrated gasification and combined cycle plants, the capital costs of plants that have been built are often several times more than originally estimated. Any potential investor should be aware of the associated financial risks in building IDGCC plants. ACIL Tasman estimates the current capital cost of a new entrant IDGCC plant at \$3,227 per kilowatt of capacity<sup>3</sup>, which for a 600 MW power station suggests capital costs closer to \$1.9 billion, or another \$600 million on top of what the proponents are suggesting.

For all of these reasons, we consider the HRL Dual Gas Pty Ltd project to be controversial. Banks who become involved with direct or indirect financing of this venture should be aware that they are courting high reputational risks. We would therefore caution you to stay clear of this project and would appreciate a response stating the position of your bank in relation to this venture.

At the same time, we would like to emphasise that we are happy to provide you with additional information or meet with your staff to discuss the problems associated with the HRL Dual Gas Pty Ltd project.

Yours sincerely,



Yann Louvel, BankTrack



Julien Vincent, Greenpeace

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<sup>3</sup> ACIL Tasman 2009, *Carbon capture and storage projections to 2050*, Prepared for the Department of Resources, Energy and Tourism

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