Coal could still be important to Asia in the next decade

Coal seeks significance as Asia eyes shift to renewables

Coal investments in Asia are still expected to grow by $250b in the next decade, but IPPs have begun to hesitate on greenfield projects as renewables take centre stage.

Asia is bucking the trend of the general decline in financial support for coal-fired power projects, as WoodMackenzie projected at the beginning of 2018 that investment in the region can still grow over $250b in the next decade. This reflects the need to support Southeast Asia's power demand, which is expected to grow 4.6% per annum, the firm said.

Coal is still important in firing up power plants in Asia as governments tend to prioritise energy security and affordability of electricity. As a result, Wood Mackenzie said that the tightening of export credit agencies' (ECA) financing terms is still milder for emerging markets in Asia.

"The new ECA rules will not apply to projects that have already finished detailed feasibility studies, environmental assessment or requests for proposal before the rules came into force on 1 January 2017. The new ECA rules also make exceptions for markets such as Indonesia, Cambodia, Laos, Myanmar, the Philippines, and South Asian and Central Asian countries because they are classified as low national electrification rate countries per the IEA criteria," it said.

However, **Ian Fox,** the CEO of independent power producer (IPP) Leader Energy, whose company has two coal-fired projects in Cambodia, said he will have to take a pause when asked to do a greenfield investment for coal. Private equity firms and funds are backing away from coal, making it eventually "disadvantageous" to have coal in one's portfolio, he added.

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"I'm hesitant to do more coal," he admitted during a panel session centred on coal versus renewables in this year's Power-Gen Asia. Despite this, another speaker, Bloomberg Intelligence's senior analyst **Joseph Jacobelli** still reiterated that the bulk of Asian countries are concerned about affordability, thus the tendency to stick to coal projects. "Energy security is absolutely primordial in Japan, Korea, and even China," Jacobelli said and added that not a lot of Asian countries prioritse climate change in their agenda.

However, the Institute for Energy Economics and Financial Analysis (IEEFA) has observed in August that Japan's financiers are backing away from coal, albeit slowly, following increased opposition within the government. Big names like Mitsui Financial Group, as well as Mizuho and MUFG, expressed that they are rethinking their stance towards coal.

Since 2012, 50 new coal-fired power plants have been proposed in Japan. However, an increasing number of these proposals have been taken off the table and the number of projects in the development pipeline has dropped to 35. To make up for the loss of these proposals, more companies have gotten into renewables, specifically solar PV, translating into domestic investment worth $20b to $30b a year.

Some panelists in Power-Gen Asia concurred with this. Fox said, "Solar is set to threaten coal's position. If you project forward in 5-7 years, you're gonna see that coal and renewable are going to work together. Coal will be the back-up fuel."

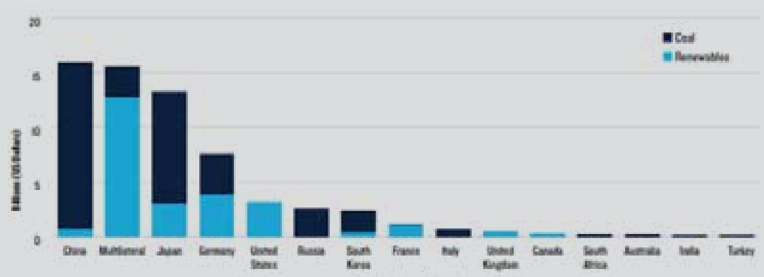
Countries like Indonesia and India are eyeing the use of biomass as well not only to cut air pollution caused by coal plants but to address coal shortages in specific areas as well. Indonesia has slightly increased its goal of renewables share to 40.39%, although coal still takes a big bite from the expected energy mix at 50%.

Jisman P. Hutajulu, director of electricity at the Ministry of Energy and Mineral Resources (Indonesia) said the country can tap into biomass. "Indonesia has plenty of biomass reserves, we try to encourage the use of biomass energy. We have regulation of the price, we also try to adjust that with the principle cost of provision," he said. This means that the government tries to do cross-subsidy, so that low biomass reserves will have higher price, whilst those with high biomass reserves will have lower prices.

India's state-run NTPC also recently set the bar for its biomass usage at 7% across all its plants, following the advisory encouraging public and private utilities to use a 5-10% biomass blend for their facilities. This is response to increased pressure on coal sourcing, highlighted by the fact that 10,500MW of coal-fired power plants have shut down in areas where coal is difficult to deliver as owners have cited a shortage of the resource.

Written by Danielle Mae V. Isaac

G-20 financing for coal and renewable projects abroad, 2013-2016



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