

Italy observes as global coal grows

Global coal demand increased by 55% in the 10 years to end-2012, Italian coal association Assocarboni said March 22, exceeding growth in any other energy source in both volume and percentage terms - including renewables. In 2012 the maritime world trade of coal surpassed 1 billion tonnes, a 5.5% increase on 2011.

China remains the largest producer, with 3.7 billion tonnes, and consumer of coal in the world. In 2012, the country imported 230 million tonnes (+27% over previous year).

Japan, in contrast to 2011 and due to the exit from nuclear power, has seen a 10% growth of its steam coal imports, which accounted for 132 million tonnes.

In Europe there has been a significant increase in the consumption of coal. This is a consequence to the boom of shale gas in the United States - which has made available American low-priced coal on the European market - and to the decision to reduce the dependence on nuclear power.

In 2012, imports of coal grew in UK (+31%, to 55 million tonnes), Germany (+6%, to 40.1 million tonnes), France (+13.7%, to 16.8 million tonnes), Italy (+12%, to 19 million tonnes) and Turkey (+ 27%, to 23.7 million tonnes).

On average, EU-27 imports of steam coal increased by 6% in 2012, reaching 210 million tonnes.

The main exporting countries are still Indonesia (320 million tonnes exported, +18% over 2011), followed by Australia (315 million tonnes, +12.3%) and Russia (127 million tonnes, +19%).

"In 2012, coal therefore confirmed its position as global leader in the production of electric energy, accounting for 41% of overall production - expected to grow up to 44% in 2030 - followed far behind by nuclear power, which accounted for 20%, and natural gas, 17%," Assocarboni said.

In Europe, coal accounted for a 33% share in power production in 2012, followed by nuclear power at 32% (up from 30% in 2011) and natural gas, at 17%.

Shackled to gas

Assocarboni restated its by-now familiar stance that coal's role in Italian power is too limited. It called on the government to adopt policies that ensure Italy's generation mix moves more in line with the rest of Europe.

As of today, Italian electricity production "comes 60% from natural gas, 85% of which is imported, and only 12% from coal. This inevitably results in higher energy security risks and bills," chairman Andrea Clavarino said at Assocarboni's annual conference in Rome.

"What Italy needs most today is concrete proposals to reduce the dependence on imported natural gas and tackle the problem of the length and uncertainty of the authorization process. This is something to which the new National Energy Strategy does not answer," said Clavarino.

"Assocarboni hopes for an alignment of the Italian energy mix to that of countries such as Germany and the United Kingdom, which have built their competitiveness on coal and renewable energies," he said. "In light of the technological advances of the Italian coal power plants, which boast an average efficiency of 39%, with peaks of 46% in the case of the Torrevaldaliga North plant, the next Government has to reconsider the role of coal in its future energy policy," Clavarino said.

Coal's low share in the mix contributed to the 40-50% premium in Italian power prices over other European markets, Clavarino told Platts. While the government was congratulating itself on reaching its 2020 renewable targets early, this would be at the expense of Italian heavy industry, he said. The recent fall in gas prices would do little to ease the situation, given low CCGT margins and therefore loads.

Gianfilippo Mancini, DG of generation at Enel, agreed that it was growing incentive costs that were punishing end users. "[Because of the] non-timely incentive of renewables, we are now in a dramatic situation for the market, with serious production overcapacity, falling wholesale prices and rising tariffs for final customers," he told the conference.

Attempts to create a price signal through the wholesale market had failed as new regulated costs were adding 25% to end user bills, he said. It was imperative that the system took better advantage of thermal plant assets, both existing and proposed, he said.

Enel has invested €38 billion in CCGT capacity and owns eight of Italy's 13 coal-fired plants. For several years it has pursued plans for a 1,980 MW oil-to-coal conversion at Porto Tolle, which still awaits final authorization.

Clavarino said that if the project did not get a green light this year it would be hard to see it proceeding, given the lack of investment and economic/demand outlook in Italy.

Along with Porto Tolle, completion of SEI's 1,320 MW Saline Joniche plant and expansion of Tirreno Power's Vado Ligure plant "would be optimal", Clavarino said, lifting coal's share in the generation mix from 12% to around 16%.

Competition focus

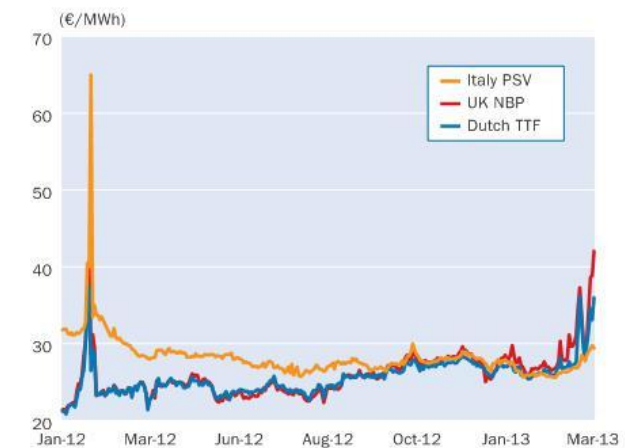
Industry ministry official Leonardo Senni told the conference that the Italian government was neutral on the country's energy mix, which should be driven by the market but it expects at the same time other European countries to move towards the Italian mix rather than the other way round, with gas, not coal, growing its share.

Senni, who heads up the ministry's energy department, said that with more LNG volumes due on stream from Australia and the US, the global gas market would tend to over-supply, and "gas has good chances to become competitive." Meanwhile coal prices were unpredictable and it was risky to expect CO₂ prices in the EU ETS to remain in a €3-4/mt range for long, he said.

Senni said Italy's new energy strategy, approved earlier in March, forecasts that around 75% of electricity generation will be met by gas and renewables by 2020, but the strategy's guiding principle was one of competition with the market signaling the way ahead, and in this Italy was setting itself apart from more interventionist European states.

At the heart of the strategy is a drive to integrate Italy's gas and power grids with Europe to reduce the premium Italy pays for its energy. It articulates the ambitious goal of developing a southern European gas hub, with LNG terminals providing diversity and security of supply. A supporting role is assigned to coal, with a 15-16% share of generation forecast to 2020.

Day ahead gas price comparisons



Source: Platts

For gas, wholesale prices were already responding to the opening up of pipeline connections with Austria and "soon with Switzerland," the start of a balancing market and the liberalization of gas storage allocation. So far this year, Italian gas prices have been lower than in the rest of Europe, Senni said. The start of a forward regulated gas market, expected soon, would further contribute to price differential reduction.

For power, "the path is longer" to price reductions but steps had been taken, Senni said, noting government decrees in July, 2012 capping renewable energy subsidies at €12.5 billion/yr. He noted that wholesale power prices were around €15/MWh lower today than for the same period last year thanks to lower wholesale gas prices.

Meanwhile power grid bottlenecks were being addressed, the official said, with the Sapei cable between Sardinia and continental Italy resulting in alignment of the Sardinian zonal power price, and the new Sorgente-Rizziconi cable between Sicily and the continent, due to enter operation in two years, expected to do the same for Sicilian zonal prices. This alone could bring about a reduction in Italy's single national purchasing price (the PUN) by some €3/MWh, Senni concluded.

ABB supplies A&C for Sulcis

ABB has won an order from Enel to supply a new automation and control system to serve one of the coal-fired units at the 590-MW Grazia Deledda Sulcis power plant, Sardinia, ABB said March 18. The plant comprises two 240-MW units. "The existing control systems will be replaced with a total plant automation solution to enhance the unit's efficiency and improve its environmental performance," ABB said. The plant is in the Sulcis Iglesiente basin, which contains Italy's only coal deposits. "The use of coal to generate electricity is expected to rise in coming years as Italy seeks to reduce its dependency on natural gas imports from Russia and Algeria," ABB said.

— Beatrice Bedeschi