



Investor Group on
Climate Change

Investor Group On Climate Change (IGCC)

Submission to:

AEMC

Rule Change Request: Generator
Three-year notice of closure

8 June 2018



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Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

**AEMC Rule Change Request – Generator three year notice of closure
(Ref: ERC0239)**

The Investor Group on Climate Change (IGCC) represents over 70 Australian and New Zealand institutional investors with more than \$2 trillion of funds under management, along with members of the investment community focused on the impacts of climate and energy issues.

IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. As managers of retirement savings and pooled investments we are concerned with the evident and increasing impacts of climate change on the global and Australian economies and the flow through impacts for investment returns.

Investors have a keen interest in the proactive management of the National Electricity Market and seek long-term planning to facilitate a responsible transition to a reliable cost-effective and low carbon energy system.

As such, IGCC supports the proposed rule change for the implementation of a three-year notice of closure as submitted by Dr Kerry Schott AO.

As a recommendation made as part of the Finkel Review into the National Electricity Market, the notice of closure period would provide a suitable market signal to electricity market participants, investors and policy makers to facilitate a well-managed transition of our electricity market.

Market transparency and the open sharing of information is a crucial characteristic of well-functioning markets. An appropriate minimum notice of closure period will provide greater clarity to investors on the intentions of power station operators as to the management of their assets, and greater transparency around the likely direction of the wider electricity market. This will assist in the identification of priorities and opportunities for new investment.

Sufficient notice to the market of the intention of power station operators will work to manage and mitigate against the potential risks and disruption that can be expected from the anticipated withdrawal of major generation assets over the next few decades.

An orderly transition within the electricity sector, aided by a minimum notice period for power station closures, is crucial to maintain investor certainty in the opportunities that exist within the electricity sector. This includes limiting the impacts of potential electricity price spikes and volatility that ultimately impacts the wider community, including businesses and vulnerable households.

All electricity generators have a design lifetime, and with significant coal-fired generating capacity built during the 1960's and 1970's in Australia, the end-point for their design life is approaching.

A number of energy companies have already announced a timeline for anticipated closure of its major generators (such as AGL Limited), based on a 50-year operational life: extending this 50-year lifetime to other coal-fired generators in Australia sees a period of rapid decommissioning between 2029 and 2035 (see Figure 1).

Under this scenario, around two-thirds of existing coal generators will approach their end of technical life by 2035, leaving just under one-third of the coal capacity existing at the end of 2015 available in 20 years' time. We note that some power stations are likely to close prior to the end of their technical life, as ongoing maintenance costs become prohibitive.

Power station operators should be supported in developing plans for future uses of power station sites and infrastructure and the re-skilling and redeployment of the workforces currently engaged with power station reaching the end of their operational life.

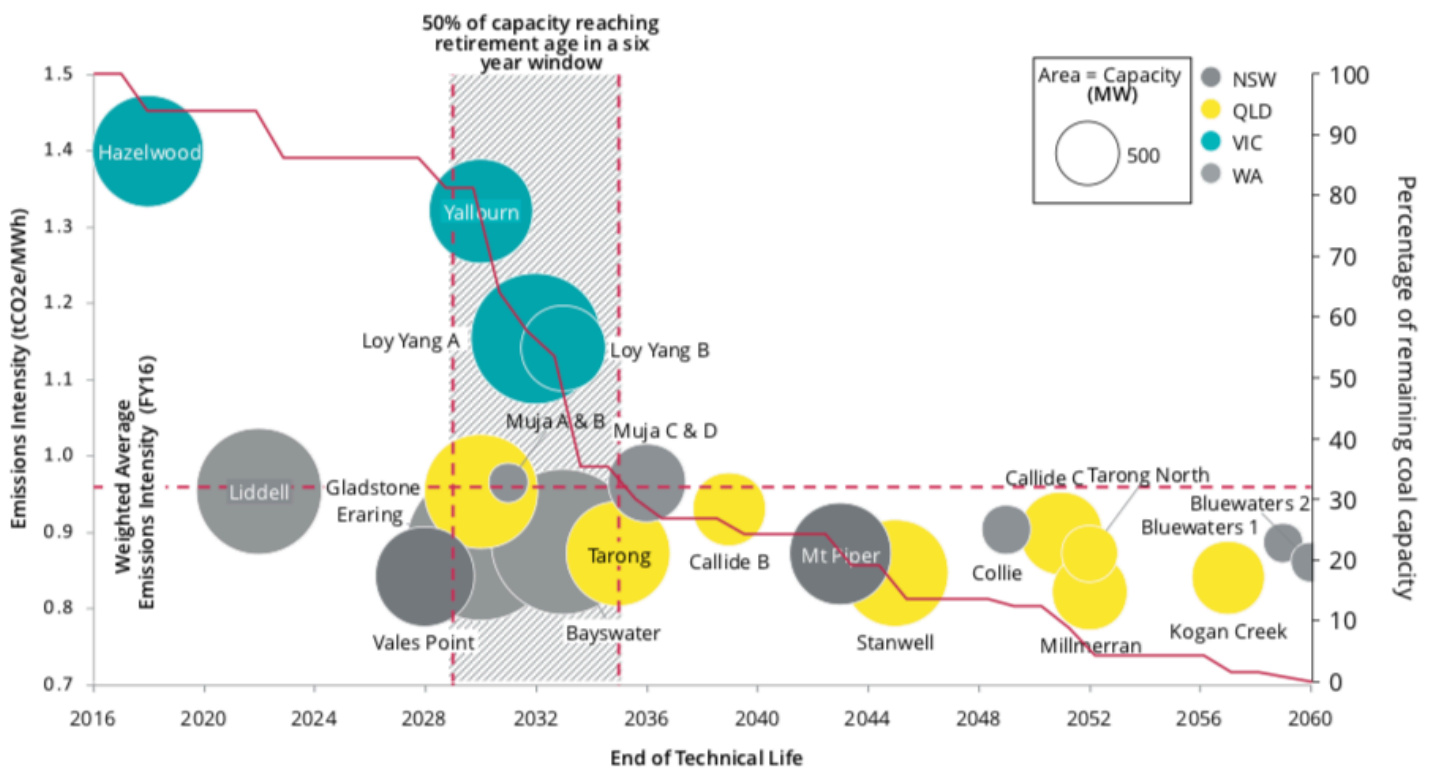


Figure 1 - Potential future coal-fired capacity losses, based on coal generator age (Australian Energy Market Operator, 2017; EY analysis)

Providing the market, inclusive of asset managers and investors, the time to plan for the transition away from aging, fossil fuel-based generation assets and towards cleaner sources of electricity generation will work to limit potential electricity price volatility and ensure the energy system is able to operate reliably and predictably.

The introduction of a minimum notice of closure period must be viewed as a means of encouraging energy market participants to begin forward looking planning and preparation as to their future role within the Australian energy market.

Such an orderly transition is necessary to ensure ongoing stability and reliability in the national electricity market, and to provide opportunities for impacted communities and workforces to plan and prepare for a future after the power station has ceased operation.

The notice period should not be viewed as a means of preventing the timely decommissioning of power stations, but a chance for regulators, policy makers and market participants to work together in shaping Australia's future energy system.

IGCC offers the following comments in relation to specific issues raised in the consultation paper.

The Nature of the Policy Change

Over the last seven years, almost 5 Gigawatts of generation capacity has been withdrawn from the National Electricity Market with the expectation of more to follow¹. Aging of the electricity generation fleet and increased competition from alternative energy sources combined with potential policy changes related to emissions pricing, will have implications for generation and combined with potential policy changes to address greenhouse gas emissions from electricity generation it will have implications for generation and prices.

The interaction between price, market pressure, climate policy and plant age will have important roles in determining when a coal-fired generator will close. There are considerable decommissioning costs after shutting down the plant, including dismantlement of buildings and equipment and site remediation and restoration in accordance to environmental and safety regulations.

Yet while the exact timeline for specific plant closure remains unpredictable, it will increasingly need to be planned for. Due to the inherent uncertainty of actual closure dates, planning needs to be flexible and broadly applicable, and take into account the circumstances of the communities most affected. Without strategic planning, the transition will likely be more expensive and more disruptive to impacted communities.

With additional large power stations within the National Electricity Market anticipated to reach the end of their operating lives over the next few decades, IGCC supports the proposal for a minimum notice period for closure to provide greater opportunity for orderly transition of the electricity sector.

Appropriate Minimum Notice Period

As outlined above, there are significant benefits to providing early information to markets with respect to the future decommissioning of major generation assets. There, IGCC supports the

¹ IGCC, *Coal, Carbon and the Community: Investing in a just transition*, October 2017
https://igcc.org.au/wp-content/uploads/2016/04/Coal-Carbon-and-Community_FINAL.pdf

proposed notice of closure for generator units participating in the National Electricity Market being set at a minimum three-year period.

Such a notice period provides balance between ensuring power station operators have sufficient flexibility to appropriately manage generation assets without leading to situations of system instability. Three-years would provide sufficient notice of the withdrawal of generation capacity while allowing sufficient time for replacement capacity, if necessary, to be commissioned prior to the withdrawal.

Size of Generator Threshold

Alignment between existing categories and definitions for electricity market participants would work to maintain a level of simplicity and alignment that would support the implementation of the notice of closure period.

The definition of a 'scheduled' and 'semi-scheduled' generator units already contained within the National Electricity Rules, and as recommended by the proposed rule, provides a suitable, and readily understood threshold for requirements for providing notice of closure. IGCC supports the application of these categories as a suitable threshold for notice of closure requirements.

These definitions would also ensure that the notice of closure requirements apply to the individual generator units that are a constituent part of an overall power station that alone are often a significant source of generation capacity to the market.

The IGCC thanks the AEMC for the opportunity to provide a submission to the rule change request Amendment (Generator three-year notice of closure) Rule 2018 and would be happy to facilitate further discussion of the issues raised in this submission.

Kind regards



Emma Herd
CEO
Investor Group on Climate Change