Australian Energy Market Commission

RULE CHANGE

CONSULTATION PAPER

Amendment (Generator three year notice of closure) Rule 2018

Rule Proponent(s)
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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 Introduction

On 6 March 2018, the Chair of the Energy Security Board (ESB), Dr Kerry Schott AO, submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) to propose changes to the National Electricity Rules (NER) that would assist in managing the retirement of the existing coal-fired generators as they reach the end of their economic lives. Specifically, the rule change request seeks to:

- require scheduled and semi-scheduled generators to provide the Australian Energy Market Operator (AEMO) with the expected closure year of each of their generating units and at least three years notice of any cessation of registration of a Generator[1] or termination of classification of a generating unit as scheduled or semi-scheduled
- enhance AEMO reporting through the medium term (MT) projected assessment of system adequacy (PASA) reporting process and Electricity Statement of Opportunities (ESOO)
- give the Reliability Panel the discretion to identify specific energy constraint scenarios for the focus of study under the Energy Adequacy Assessment Projection (EAAP).

The rule change request can be found on the Commission's website.[2]

This consultation paper has been prepared to facilitate public consultation on the rule change request and to seek stakeholder submissions. The paper sets out:

- the background to the rule change request (chapter 2)
- details of the rule change request (chapter 3)
- the framework for assessing the rule change request (chapter 4)
- questions and issues to facilitate the consultation (chapter 5)
- the process for making a submission (chapter 6).

1 This is a reference to the person owning, controlling or operating the generating system, rather than the generating asset itself.

2 AEMC, *Rule change request*, Generator three year notice of closure webpage, https://www.aemc.gov.au/rule-changes/generator-three-year-notice-closure.

2 Background to the rule change request

2.1 The rule change request stems from a Finkel Review recommendation

The rule change request is based on one of the recommendations of the Independent Review into the Future Security of the National Electricity Market (Finkel Review). The Finkel Review identified managing the retirement of the existing coal-fired generators as they reach their end of life as a key challenge facing the NEM.

It noted that the uncertain and changing direction of emissions reduction policy for the electricity sector has compromised the investment environment in the NEM. The Finkel Panel recommended a policy package to achieve an orderly transition to a low emissions future. Part of this policy package was putting in place notice of closure requirements for large generators.[3]

2.2 Finkel Review recommendation 3.2

In its report,[4] the Finkel Panel noted that "generators retire with much shorter notice to the market than the time it takes for new capacity to be planned, financed and constructed".[5] According to the report, the Northern and Playford B generators gave only eleven months' notice of closure, while Hazelwood gave only five months. The report suggested that short notice of such closures is not atypical but is well below the notice required for replacement generation assets to come online.

The Finkel Panel felt it would be desirable for there to be a period of overlap between the entry of new capacity and the exit of old capacity. The report argued that, "(f)or this to be possible, the operator and the market must have better visibility over when existing large generators will exit the market".[6] While some information about expected closure dates is currently made public, the Finkel Panel suggested AEMO should do more to gather and publicise informed and up-to-date estimates of closure and that this should involve more active discussion with generator owners and operators.

Consequently, the Finkel Review recommended:[7]

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3 The other parts of the package that the Finkel Panel recommended was the introduction of an emissions reduction mechanism and a Generator Reliability Obligation. The National Energy Guarantee proposed by the Energy Security Board is seeking to address these other parts of the orderly transition package.

4 Commonwealth of Australia, *Independent Review into the Future Security of the National Electricity Market - Blueprint for the Future*, https://www.energy.gov.au/publications/independent-review-future-security-national-electricity-market-blueprint-future, June 2017.

5 Ibid, p. 87.

6 Ibid.

7 See recommendation 3.2 of the Finkel Review report.

- a requirement for all large generators to provide at least three years' notice prior to closure
- AEMO should maintain and publish a register of long-term expected closure dates for large generators.

The report recommended all types of large-scale generation should be covered, including coal, gas, hydro, wind and solar and suggested this would provide sufficient time for replacement capacity to be built and for affected communities to plan for change.

2.3 Context

The Commission notes that since the publication of the Finkel Panel's report, the reliability and security of the NEM has attracted considerable attention from policy makers.

The Energy Security Board has proposed a National Energy Guarantee that seeks to integrate energy and climate change policy instruments in the NEM to provide investors with the certainty they need to make long-term investments.[8] The Guarantee is a foundational component of a broader work program to support this transition of Australia's energy system. At its meeting on 20 April 2018, the COAG Energy Council has directed the ESB to progress the detailed design of the National Energy Guarantee for determination in August 2018.

As part of that broader work program, the AEMC's reliability frameworks review is considering complementary changes to energy market design to support the Guarantee's objective in delivering long-term reliability at least cost. In addition, the Commission has received two rule changes from AEMO in relation to the RERT, one to reinstate the long-notice RERT by June 2018[9] and a broader rule change seeking enhancements to the RERT.[10]

Given this broader work program, the proposal to require AEMO to maintain and publish a register of long-term expected closure dates for large generators (i.e. the subject of this rule change) is related to information requirements about reliability and should be considered within this broader context. As such, the rule change request is being progressed alongside the Commission's *Reliability Frameworks Review* and forms part of the Commission's reliability work program.

It is also worth noting that the Commission has also previously considered the issue of generator closure from a different but somewhat related angle. On 16 June 2015, the

8 Energy Security Board, *Call for public submissions on National Energy Guarantee*, Media Release, 15 Feb 2018.

9 AEMC, *Reinstatement of long notice Reliability and Emergency Reserve Trader*, Rule changes webpage, https://www.aemc.gov.au/rule-changes/reinstatement-long-notice-reliability-and-emergency-reserve-trader

10 AEMC, *Enhancement to the Reliability and Emergency Reserve Trader*, Rule changes webpage, https://www.aemc.gov.au/rule-changes/enhancement-reliability-and-emergency-reserve-trader.

Commission provided advice to the COAG Energy Council on the factors involved in a decision to retire or decommission generation assets and whether or not there were material barriers to their orderly exit from the NEM.[11] The advice concluded that, while barriers to exit exist, there "is nothing in the National Electricity Law or Rules which would constitute a barrier to efficient exit decisions by generators in the NEM".[12]

AppendixA contains a summary of this advice, focussing on the nature of generator closure decisions.

11 AEMC website, Market Reviews Advice webpage, https://www.aemc.gov.au/sites/default/files/content/bda2ad5f-5065-423f-b4fe-5d848219e086/EPR0045-Advice-Barriers-to-Exit-Final.pdf, 16 June 2015.

12 Ibid, p. 24.

3 Details of the rule change request

3.1 Rationale for the rule change request

The proponent says the proposed rule "is focussed on the provision of additional, specific information to AEMO on expected closure dates and includes a requirement that scheduled and semi-scheduled generators provide at least three years' notice of when it will cease to supply electricity or trade directly in the market".[13]

The proponent suggests the proposed rule change would assist in managing the retirement of the existing coal-fired generators by augmenting the existing reporting requirements on generators to provide additional information to AEMO relating to expected closure dates. This information would give AEMO and market participants (through AEMO's reporting) a better outlook of generator availability into the future.[14]

3.2 Proposed solution

The rule change request includes a proposed rule, suggesting the following changes to the National Electricity Rules (NER):[15]

- Three years notice of cessation of registration as a Generator or termination of classification of a scheduled or semi-scheduled generating unit must be given to AEMO.
- A requirement for scheduled and semi-scheduled generators to notify AEMO on registration, and regularly update through the MT PASA reporting process, the year they expect a generating unit to cease supplying electricity (the "expected closure year"). The expected closure date should be no later than the expiry date of a generator's licence or authority to generate.
- A requirement that a date must be specified for when a generating unit classification is to be terminated, and in the case of a Market Generator, the date it will cease supplying electricity or trading directly into the market[16] in relation to one or more connection points (the "closure date ").
- The expected closure date for Scheduled or Semi-Scheduled Generators is to be no earlier than three years from the date the notice is provided in writing to AEMO. The closure date can only be earlier because of an event beyond the reasonable control of the Generator, and where the occurrence of the event could not reasonably have been foreseen by the relevant Generator.

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13 AEMC website, *Rule change request.pdf*, Generator three year notice of closure project webpage, https://www.aemc.gov.au/rule-changes/generator-three-year-notice-closure, p.11.

14 Ibid, p.12.

15 Ibid, p.12

16 NER, Chapter 10 definition of 'market' includes all markets or exchanges described in the NER as conducted by AEMO (which includes the NEM).

- Enhanced AEMO reporting through the MT PASA and ESOO that specifically recognises the "expected closure year" for generating units.

- A proposed change to the current Energy Adequacy Assessment Projection (EAAP) process to give the Reliability Panel the discretion to identify specific energy constraint scenarios for the focus of study under the EAAP. This would require AEMO to consider a broader range of energy constraint scenarios than the conditions it currently considers.

3.3 Contribution to the National Electricity Objective

The proponent argues the proposed rule change request will contribute to the national electricity objective (NEO) by promoting efficient investment in, efficient operation and use of, electricity services for the long term interests of consumers.[17] It expects the proposed rule will:

- **Improve the provision of information:** The arrangements for registration and any additional reporting requirements in the NER should be clear, consistent and understandable to all participants. The inclusion of clear reporting requirements around expected closure dates of generators should support accountability and confidence in the system.

- **Enhance transparency and predictability:** The transparency of information is a key feature of the efficient operation of the NEM. Market participants need access to clear, timely and accurate information in order to allow them to make efficient commercial and operational decisions. Greater transparency resulting from additional reporting requirements should make it easier for market participants to examine trends and plan for the future therefore contributing to more informed and efficient decision making.

17 Ibid, p.13.

4 Assessment framework

The Commission's assessment of this Rule change request must consider whether the proposed Rule promotes the National Electricity Objective (NEO).

From 1 July 2016, the NER, as amended from time to time, apply in the Northern Territory, subject to derogations set out in Regulations made under the Northern Territory legislation adopting the National Electricity Law (NEL).[18] Under those Regulations, only certain parts of the NER have been adopted in the Northern Territory[19]. As the proposed rule related to parts of the NER that currently do not apply in the Northern Territory, the Commission has not assessed the proposed rule against additional elements required by the Northern Territory legislation.[20]

4.1 Rule making test

4.1.1 Achieving the NEO

Under the NEL, the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the NEO.[21] This is the decision making framework the Commission must apply.

The NEO is:[22]

> "To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system."

This rule change seeks to adjust incentives for market participants when they make investment or retirement decisions with respect to generation capacity. In particular it seeks to better coordinate the retirement of generation capacity with investment in new capacity. The aspects of the NEO that are most relevant to this rule change request are:

- "efficient investment in ... electricity services"

18 National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations.

19 For the version of the NER that applies in the Northern Territory, refer to : http://www.aemc.gov.au/Energy-Rules/National-electricity-rules/National-Electricity-Rules-(Northern-Territory).

20 National Electricity (Northern Territory) (National Uniform Legislation) Act 2015.

21 Section 88 of the NEL.

22 Section 7 of the NEL.

- "price, ... reliability, and security of supply of electricity" and
- "reliability ... and security of the national electricity system".

4.1.2 Assessment framework

To determine whether the proposed rule would be likely to promote the NEO, the Commission will assess the rule change request against an assessment framework. The framework may be refined during the rule change process.

In particular it will consider the following principles:

- **Improve the provision of information**: The arrangements for registration and any additional reporting requirements in the NER should be clear, consistent and understandable to all participants. The inclusion of clear reporting requirements around expected closure dates of generators should support accountability and confidence in the system.
- **Enhance transparency and predictability**: The transparency of information is a key feature of the efficient operation of the NEM. Market participants need access to clear, timely and accurate information in order to allow them to make efficient commercial and operational decisions. Greater transparency resulting from additional reporting requirements should make it easier for market participants to examine trends and plan for the future therefore contributing to more informed and efficient decision making.
- **Efficiency of investment in and operation of generation capacity and demand response**: Improving the provision of information, transparency and predictability of information in the NEM can assist in promoting efficiency of investment in, and operation of generation capacity and demand response decisions. By publically disclosing, at the same time, to all interested parties information that is, or has the potential to be, market-sensitive, this can potentially help energy market participants to make more efficient decisions. The Commission will consider how the provision of this information could assist in market participants making more efficient investment and operational decisions.
- **Administrative costs**: The disclosure and maintenance of a register providing notice may increase administrative costs for market participants and AEMO. Furthermore, requiring market participants to decide on tentative closure dates could also result in an increase in administrative costs. The Commission will assess how the proposed rule affects administrative costs and consider these costs against the benefits the rule change may provide.

4.2 Making a preferable rule

Under s. 91A of the NEL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied that,

having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NEO.

5 Issues for consultation

Taking into consideration the assessment framework, the Commission has isolated five issues for consultation. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed assessment framework set out in the previous chapter.

The five issues are:

1. The nature of the policy challenge
2. Requirement to notify AEMO of closure
3. Enhanced reporting of expected closure
4. Compliance
5. Proposed change to the EAAP process.

Each of these is discussed in the following subsections.

5.1 The nature of the policy challenge

The proponent suggests the proposed rule change would assist in managing the retirement of the existing coal-fired generators by augmenting the existing reporting requirements on generators to provide information to AEMO relating to expected closure dates. This information would give AEMO and market participants (through AEMO's reporting) a better outlook of generator availability into the future.

While considering some of the issues with the policy challenge, stakeholders might want to review real cases, for example:

- **Northern and Playford B power stations**, which were brown-coal fired thermal power stations located at Port Paterson in South Australia, south of Port Augusta. Northern power station consisted of two 260 MW generating units (520 MW capacity in total). Playford B power station consisted of four 60 MW generating units (240 MW capacity in total). On 11 June 2015, Alinta Energy announced that Northern and Playford B power stations and the Leigh Creek coal mine that supplied them with fuel would "not operate beyond March 2018 (and may close earlier but not before March 2016)".[23] This notice of intention was updated on 30 July 2015 that indicated the closure would "not operate beyond March 2017" and an earlier closure date would not be before March 2016, and only if circumstances warrant.[24] On 7 October 2015, Alinta Energy announced

23 Alinta Energy, *Flinders Operations Announcement*, News webpage, https://www.alintaenergy.com.au/nsw/about-us/news/flinders-operations-announcement.

24 Alinta Energy, Flinders Operations Closure Update, News webpage, https://www.alintaenergy.com.au/about-us/news/flinders-operations-closure-update.

that it planned to cease generation around 31 March 2016.[25] In the end, they both closed on 9 May 2016.

- **Hazelwood power station**, which was a brown-coal fired thermal power station located in the Latrobe Valley of Victoria, consisting of eight 200 MW generating units (1,600 MW capacity in total). On 3 November 2016, ENGIE published a press release announcing that the Hazelwood coal power station and the adjoining mine would close at the end of March 2017.[26] The generating units were shut down over two days on 28-29 March 2017.

- **Liddell power station**, which is a brown-coal fired thermal power station located at Lake Liddell in the Hunter region of New South Wales, consisting of four 500 MW generating units (2,000 MW capacity in total (but down rated to a total of 1,680 MW at the time of writing). After AGL published a new Greenhouse Gas Policy, which would provide "a pathway to decarbonisation of its electricity generation by 2050",[27]it issued a press release on 6 September 2017,[28] confirming "AGL was committed to the closure of the Liddell Power Station in 2022".

Question 1 The nature of the policy challenge

What problems are caused by generators providing short notice of the closure?

5.2 Requirement to notify AEMO of closure

This section considers the following aspects of the requirements in the rule change request for notifying AEMO of closure:

- Nature of requirement to notify AEMO of closure
- Appropriate minimum notice period
- Size threshold for applying the requirement

25 Alinta Energy, Flinders Operations Update, News webpage, https://www.alintaenergy.com.au/nsw/about-us/news/flinders-operations-update.

26 ENGIE website, press release 3 November 2016, https://www.engie.com/en/journalists/press-releases/hazelwood-power-station-australia/.

27 AGL, *AGL policy to provide pathway to decarbonisation of electricity generation*, ASX and Media Releases webpage, https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2015/april/agl-policy-to-provide-pathway-to-decarbonisation-of-electricity-generation, 17 April 2015.

28 AGL, *AGL Energy statement on Liddell Power Station*, ASX and Media Releases webpage, https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2017/september/agl-energy-statement-on-liddell-power-station, 6 September 2017

5.2.1 Nature of requirement to notify AEMO of closure

The rule change request includes three new provisions for generators to notify AEMO of its intention to retire a generating unit:

1. The addition of clause 2.2.1(e)(2A) requiring a person wanting to register as a Generator to notify AEMO of the year in which the Generator expects a generating unit classified as a scheduled generating unit or a semi-scheduled generating unit to cease supplying electricity to the transmission network or distribution network at its connection point

2. The addition of clause 2.10.1(c2) requiring a closure date notified to AEMO, in respect of a Scheduled Generator or Semi-scheduled Generator, be a date no earlier than the date that is three years from the date of the notice given in paragraph (a).

3. The rule change request provides that a closure date can be earlier than three years from the date the notice is given under proposed clause 2.10.1(c2), where an event beyond the reasonable control of the generator has occurred, and where the occurrence of the event could not reasonably have been foreseen by the generator.

In addition to these new requirements on generators, the rule change request also includes amendments to:

- clause 3.7.1(c)(1)(ii), which would require AEMO to collect, update, and publish in respect of scheduled generating units, any notifications of cessation of registration by the generator, and the expected closure year for scheduled generating units as part of the PASA process[29]

- clause 3.7.2(d)(3), which would require scheduled generators to notify AEMO of the most up to date expected closure year of scheduled generating units as part of the MT PASA process[30]

- clauses 3.7B(b)(1), which would require semi-scheduled generators to notify AEMO of the expected closure year of semi-scheduled generating units as part of the PASA process

- clause 3.7B(c)(2), which requires AEMO when preparing an unconstrained intermittent generation forecast,[31] to have regard to the notified cessation of registration for a scheduled generator and the expected closure year of generating units

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29 AEMO is required to follow the PASA process, which provides forecasts that determine whether there will be sufficient supply to meet projected demand over various forward intervals.

30 The MT PASA process calculates the adequacy of expected electricity supply to meet demand across a two-year horizon.

31 NER definition Chapter 10 - A forecast prepared by AEMO in accordance with rule 3.7B of the NER of the available capacity of each semi-scheduled generating unit.

- clause 3.13.3(q), which would require AEMO to publish the expected closure year for scheduled generating units and semi-scheduled generating units as part of the ESOO.

The Commission is interested in stakeholders' views on the nature of the requirement on generators to notify AEMO of closure and under what processes stakeholders have the obligation to notify AEMO of closure and how the obligation would apply.

Question 2 Nature of requirement to notify AEMO of closure

(a) Through which processes should participants notify AEMO of their closure intentions?

(b) Are there other information processes that would benefit from having closure dates included?

5.2.2 Appropriate minimum notice period

The rule change request follows the Finkel Review recommendation for a minimum three years notice of closure. In determining the length of notice required, the Finkel Panel suggested that three years provided an appropriate trade-off between additional certainty for new investors and decision making flexibility for generators. It considered a longer period might provide better planning information for those looking to enter the market, but may place an unrealistic expectation of foresight on existing generators. At a minimum, the Finkel Panel considered the notice period should give enough time for new generation capacity to enter the market.

The Commission is interested in stakeholder's views on what notice period is required for a generator to provide the community sufficient time to adequately plan for the change and for the market to provide replacement resources to lessen any negative impact of the closure on prices and reliability.

Question 3 Appropriate minimum notice period

(a) Does three-year minimum notice strike the right balance between providing investors with enough notice and generators enough decision making flexibility?

(b) If not three years, what should the appropriate minimum notice period be and why?

5.2.3 Size of generator threshold

The rule change request includes clause 2.10.1(c1), which would require all registered participants to notify AEMO of the date upon which it wishes the classification of a generating unit to be terminated and, in the case of a market generator, it will cease to supply electricity or trade directly in the market (the closure date). The proposed

clause 2.10(c2) would require scheduled and semi-scheduled generators to specify a closure date no earlier than a date three years from the date the notice is given. This means the proposed rule would not apply to non-scheduled generators as defined in clause 2.2.3 - that is, with an nameplate rating less than 30 MW, and is primarily for local use or unable to participate in central dispatch per rule 3.8 (the AEMO dispatch process).

The Finkel Review recommended the requirement apply to large generators but did not define the size at which the cut-off might occur.

The Commission is interested in stakeholders' views on the size threshold that should apply to the minimum notice period required in a notice of intention to close.

Question 4 Size of generator threshold

What size threshold should apply to the requirement to notify AEMO of closure?

5.3 Enhanced reporting of expected closure

The rule change request includes the following amendments to the NER:

- Administration of PASA (clause 3.7.1(c)), which would require AEMO to collect, update, and publish any notified cessation of registration dates for scheduled generators, and the expected closure year for scheduled generating units as part of the PASA process.
- MT PASA (clause 3.7.2(d)), which would require generators to notify AEMO of the expected closure year of scheduled generating units.
- Unconstrained intermittent generation forecast (clause 3.7B(b)(1)), which would require generators to notify AEMO of the expected closure year of semi-scheduled generating units (if it has changed from any previous notification provided to AEMO).
- Unconstrained intermittent generation forecast (clause 3.7B(c)(2)), which would require AEMO to take account of any notified cessation of registration dates for scheduled generators, and the expected closure years of the generating units when preparing an unconstrained intermittent generation forecast.
- Systems and procedures (clause 3.13.2(l)), which clarifies that expected notice of closure or intention to cease registration cannot be withheld from AEMO under the provisions of clause 3.13.2(k).
- Standing data (clause 3.13.3(a)(2A), which would require AEMO to establish, maintain, update, and publish a list of expected closure years for all scheduled generating units or semi-scheduled generating units notified under clause 2.10.1, clause 3.7.2(d)(3) or clause 3.7B(b)(1)(B).

- Statement of opportunities (clause 3.13.3(q)(3A) and (3B)), which would require AEMO to include and publish the scheduled generating units and semi-scheduled generating units with expected closure years in the subsequent 10 year period and any generating units for which Generators have provided notice of cessation of registration or termination of classification under rule 2.10.

While generators already notify AEMO of their availability intentions as part of the PASA process, the rule change request would formalise the requirements with respect to generator intentions to close (cease supplying electricity). The changes also include a new requirement for AEMO to establish, maintain, update, and publish the list of closure dates for all scheduled and semi-scheduled generating units.

The Commission is interested in stakeholders' views about the rule changes proposed, including any estimates of the extra costs that they would create.

Question 5 Enhanced reporting of expected closure

(a) What do you think of the changes proposed to give effect to the rule change proposal?

(b) What extra costs (if any) would they create?

5.4 Compliance and penalties

As noted above, the rule change request focusses on enhancing the information available to AEMO and the market in relation to generator closures.

The proposed rule (clause 2.10(c3)) would allow generators to notify AEMO of a closure date earlier than three years from the date of the notification date because "an event that is beyond the reasonable control of the relevant Generator has occurred and the occurrence of the event (or of an event of a similar kind) could not reasonably have been foreseen by the relevant Generator". The requirement for generators to notify AEMO of their intention to close would not be a civil penalty provision in the National Electricity (South Australia) Regulations. However, the rule changes proposed to require scheduled and semi-scheduled generators to provide AEMO current and keep up to date expected closure years amend provisions of the Project Assessment of System Adequacy (Rule 3.7), which already contain civil penalty provisions.

The Finkel review suggested the notice of closure requirement be 'binding' while the register of long term expected closure dates be non-binding. With respect to compliance, the final report had this to say about the notice of closure requirement:

> "The notice of closure requirement must be sufficiently binding for the planning and resulting reliability benefits to be realised. Flexibility in how the requirement is enforced could be appropriate in cases where there is no net impact on available capacity, for instance if an exiting generator brings forward replacement capacity in the same NEM region. However, there should be a firm expectation that generator owners and operators put in

place the necessary insurance, maintenance schedule or otherwise to ensure compliance with the notice period requirement is possible."

In respect of the Finkel Review's recommendation for a non-binding requirement for AEMO and generators to maintain and publish a register of long term expected closure dates, the Commission notes the rule change request would require:

- generators to provide information on their expected closure date
- AEMO to establish, maintain, update, and publish a list of expected closure years for all scheduled generating units or semi-scheduled generating units notified under clause 2.10.1, clause 3.7.2(d)(3) or clause 3.7B(b)(1)(B).

It is unclear to the Commission how these requirements are consistent with the Finkel Review's recommendation for the register to be non-binding.

It is important to note that while generators would provide information on their intended closure dates it does not mean they would necessarily make themselves available in the market until this time. This raises questions as to what exactly "closure" means in this context e.g. how decisions to mothball units should be treated; how to treat a single unit retirement etc.

Neither the Finkel Review report, nor the rule change proponent have considered the penalties that should apply to encourage compliance.

The Commission is interested in stakeholders' views on how to manage compliance.

Question 6 Compliance and penalties

(a) Should a civil penalty apply in relation to the proposed changes?

(b) Is it appropriate to provide exceptions to the requirement for a generator to provide three years notice in response to unforeseeable events beyond the reasonable control of the generator?

(c) What guidance should be provided in the NER about what "closure" means?

5.5 Proposed change to the EAAP process

The proponent has also included a proposed change to the EAAP process (clause 3.7C(k)) to give the Reliability Panel the discretion to identify its own specific energy constraint scenarios for AEMO to study under the EAAP.

The Commission is interested in stakeholders' views on the proposed change to the rules.

Question 7 Proposed change to the EAAP process

Do you have any comments on the proposed change to the EAAP process?

6 Lodging a submission

The Commission has published a notice under s. 95 of the NEL for this rule change proposal, inviting written submission.

You need to lodge your submission online (see details in subsection 6.1) or by mail (see details in subsection 6.2) by 5pm, Thursday 7 June 2018, in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on rule change requests[32] The Commission publishes all submissions on its website, subject to a claim of confidentiality.

All enquiries on this project should be addressed to Greg Williams on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ERC0239. The submission must be on letterhead, if you are submitting on behalf of an organisation, and it must be signed and dated.

6.2 Lodging a submission by mail

The submission must be on letterhead, if submitted on behalf of an organisation, and it must be signed, dated and sent to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

The envelope must be clearly marked with the project reference code ERC0239.

32 This guideline is available on the Commission's website www.aemc.gov.au

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
EAAP	Energy Adequacy Assessment Projection
ESB	Energy Security Board
ESOO	Electricity Statement of Opportunities
MT PASA	Medium Term Projected Assessment of System Adequacy
NEO	National Electricity Objective
NERO	National Energy Retail Objective
NGO	National Gas Objective
PASA	Projected Assessment of System Adequacy

A Details of prior AEMC advice on generator closure

On 16 June 2015, the AEMC provided advice to the COAG Energy Council on the factors involved in a decision to retire or decommission generation assets and whether or not there were material barriers to their orderly exit from the NEM.[33]

The advice lists some of the factors generators take into account when they are considering a decision to retire generating plant. Included as part of its advice, the AEMC published a report from Frontier Economics on the economic theory around barriers to exit. The Frontier Economics report noted that Generators are naturally reluctant to retire generating plant because reducing supply can provide their competitors a relative advantage. This is known as 'first-mover disadvantage'.[34]

The Commission's advice noted that a decision to retire a generating unit or station was not binary and there were several intermediate options, including:

- dispatch at minimum stable generation - an option for generating units that want to avoid expensive shutdown and restart costs and instead endure some trading intervals where the price they receive is lower than their variable costs
- two-shifting (temporary shutdown) - an option for generating units where the extent of low priced trading intervals has reached a level where it is more economical to temporarily shutdown and restart them
- seasonal shutdown - a form of two-shifting on an annual or biannual cycle more typical for power stations that have higher shutdown and restart costs
- mothballing - a form of shutdown that refers to the operational techniques required to prevent corrosion or deterioration when a plant is not operating for an extended period (or for an indefinite period).

Decommissioning was noted as the last option available to a generator as it consists of a permanent shut-down with a series of consequential obligations. These obligations include:

- continuous disclosure obligations on publically listed companies to notify the stock exchange of any information that a reasonable person would expect to have a material effect on their share price
- fuel contracts
- electricity derivative contracts

33 AEMC website, Market Reviews Advice webpage, https://www.aemc.gov.au/sites/default/files/content/bda2ad5f-5065-423f-b4fe-5d848219e086/EPR0045-Advice-Barriers-to-Exit-Final.pdf, 16 June 2015.

34 Frontier Economics, *Barriers to exit for electricity generators in the NEM*, Report prepared for the Australian Energy Market Commission, June 2015, p. 4.

- employment contracts
- obligations to remediate the site, including remediation of any associated mining sites.

Collectively, these obligations are recognised as carrying significant reputational, financial and temporal costs and risks.