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Australian Energy Market Commission
PO Box A2449
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Lodged electronically: www.aemc.gov.au (ERC0239)

Dear Commissioners,

2018 – AEMC – Generator three-year notice of closure – Consultation Paper

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We welcome the opportunity to comment on the AEMC's consultation paper on the *Generator three-year notice of closure* rule change proposal (the consultation paper). This rule change proposal was initiated to address recommendation number 3.2 of the Independent Review into the Future Security of the National Electricity Market (the Finkel Review).

EnergyAustralia supported this recommendation during the Finkel Review[1] and continues to be supportive of the intent of this proposal, provided the rule change reflects the commercial realities of the wholesale market and changing nature of government policies. We believe it will promote a reliable market by providing clear investment signals about future generation requirements.

Our main recommendation is that the drafting of the rule should not be binding and must allow for changes to notified closure dates following unforeseen or uncontrollable events that are detrimental to a generator's commercial viability or the reliability of the market. This is vital to ensure that the rule does not have unintended consequences on investment decisions and the efficient operation of the wholesale market.

In the remainder of our submission we have responded to specific questions posed and raise some issues for the Commission to consider when formulating the draft rule.

[1] https://www.energy.gov.au/publications/independent-review-future-security-national-electricity-market-submissions

Minimum notice period

The three-year notice period appears sufficient to give the market time to respond to a major closure. For example, we estimate that if approvals are in place it would take about two years to build a new gas fired power station and less than two years for renewable energy technologies. However, we suggest that the three-year notification relate to closure during an anticipated six to twelve-month closure window, where the specific closure date (within this window) is confirmed one year prior. The benefit of a closure window is that it provides sufficient flexibility for the closing generator and allows for decisions around replacement capacity to account for variations in the market, particularly fluctuations in demand, that would invariably occur within the three years. Forecasts are inherently uncertain and the longer the forecast is made into the future, the higher the level of uncertainty. For this reason, we believe it would be best to have an initial closure window that becomes firm one year from the expected closure date. This would provide greater certainty to the market while maintaining flexibility to respond to changes in market circumstances.

Generator size threshold

The 30 MW threshold appears reasonable; however, it could be an unnecessary burden on smaller generators, or provide insufficient time for larger capacity to be replaced. An alternative approach to consider could relate the notice requirement to the size of generation capacity (e.g. >500MW requires 3 years, <100MW requires 18 months). This would allow the rule to reflect the likely lead time on investment required to replace the closing capacity and recognise the size of the impact that closure is likely to have on the market.

How the closure notice should be considered for compliance

The rule change should compel generators to act in good faith when providing three years notice but the notification should not be binding. Efforts to make the three-year notice binding would likely have perverse outcomes that contradict the intention of the proposed rule which is to increase reliability and investment efficiency.

The optimal timing of closure of any generators is affected by many variables. Penalising a generator for changing its closure date is likely to lead to economically inefficient outcomes that may cause security of supply risks. For example, if the market became undersupplied after the notice of closure was given, binding the generator to its closure date would be detrimental to reliability. Conversely, in an oversupplied market, the generator may incur inefficient operational and maintenance costs. This is capital that could be alternatively, and more efficiently deployed, for investment in replacement generation.

Once a closure notification has been given, the only binding obligation should be for generators to notify the market if expected closure materially differs from the initial notified closure window. It there is a material change to closure, this could be approved by a third party, such as the AER, based on whether changes in circumstances provide a valid reason for the change in date. This could include forecasts that a generator will become uneconomic earlier than expected, or that an increase in demand forecasts requires the generator to postpone closure.

It is preferable for there to be sufficient flexibility in the rule change to allow the market to manage and respond to these risks. The closure window and confirmation approach outlined above would support efficient and reliable outcomes and still meet the objective of improving transparency and accuracy of investment signals.

Notice of intention by large loads

As previously noted in our submission to the Finkel Review, there should be a reciprocal requirement for large loads to notify the market of their intentions. Large loads play an equally important role in determining whether there are step changes in reliability and should be obligated to provide notice of intentions. This will support efficient economic investment in the market by providing the required investment signals to facilitate an orderly transition.

If the currently proposed *Reinstatement of long notice Reliability and Emergency Reserve Trader* (RERT) rule change[2] is made, the consumer cost of loads not providing adequate notice could be more explicit. Without appropriate foresight of load closures, it is possible that long notice RERT is unnecessarily procured based on an anticipated shortfall in supply that does not eventuate. Consumers will be required to fund any availability contracts, that are established to address an expected shortfall, that become redundant if a large load closes at short notice.

In conclusion, EnergyAustralia supports the intent of this rule change, provided it recognises the significance that market variability has on generation requirements. The rule should allow for revisions in closure notifications in the event that there are material changes in the market that impact on reliability or efficient investment. Without recognising the impacts of these changes, inefficient market outcomes could lead to higher costs for consumers in the long run.

If you would like to discuss this submission, please contact Georgina Snelling on 03 8628 1126 or Georgina.Snelling@energyaustralia.com.au.

Regards

Melinda Green
Industry Regulation Leader

[2] https://www.aemc.gov.au/rule-changes/reinstatement-long-notice-reliability-and-emergency-reserve-trader