



12 June 2018

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

Generator three year notice of closure – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Generator three year notice of closure Consultation Paper.

The current reliability challenge has been driven in large part by the withdrawal of plant at short notice and an investment outlook complicated by persistent policy uncertainty, technology risk and a heightened risk of government investment in generation and storage. The proposed rule change is relevant in this regard, as it would provide greater transparency around expected generator closure dates and by extension, future capacity and investment requirements. But in seeking to facilitate more informed planning and investment decisions, it is important the rule accounts for the complexities/uncertainties that can be associated with the closure of a power station and does not inadvertently compromise the ability of generators to make efficient commercial and operational decisions. Consistent with this, there are key elements of the proposed rule that require further consideration, as discussed below.

Flexibility to revise closure dates under Rule 2.10.1(c3)

It is acknowledged in the rule change proposal that the generator closure notification requirement is intended to reveal the 'expected closure' date of a generating unit, meaning it represents a forecast. But the narrow formulation of Rule 2.10.1(c3) is inconsistent with this overarching objective as it may provide generators with only limited flexibility to revise the closure date of a unit/station, effectively creating a binding obligation.

We note that under the proposed rule, a generator can bring forward the closure date of a unit/station due to events that are 'beyond the reasonable control' of the generator or could 'not reasonably have been foreseen'. While this is a critical inclusion, the clause as currently worded is likely to result in a high level of subjectivity and provides insufficient clarity as to the basis on which it is intended to apply, or how it will be interpreted by the regulator (e.g. whether a material change in market conditions that necessitates the early closure of a plant would actually be regarded as an unforeseen event by the regulator).

Should the rule be applied in this form, there is a significant risk that a generator may be required to operate even in circumstances where it is not commercially prudent to do so. It is therefore essential that Rule 2.10.1(c3) is revised to provide a greater level of prescription around how the phrases 'beyond the reasonable control' and 'not reasonably have been foreseen' could be interpreted. This should include an outline of the range of circumstances under which a closure notification date could be brought

forward. Such circumstances could include (but not limited to): financial hardship as manifested by a lack of funds or the ability to make a reasonable return (e.g. to cover variable costs); and an inability to strike commercially acceptable terms on related contracts.

To ensure the timeliness of information is retained, these changes could be coupled with a requirement for generators to update closure notification dates as soon as practical.

Compliance and penalties

Under the proposed rule, generators will be required to provide AEMO with current, and keep up to date, expected closure years through the Projected Assessment of System Adequacy (PASA) framework. It is therefore reasonable that any compliance provisions applicable under the PASA framework are also applied under the closure notification rule.

Minimum notice period

Origin believes three years is an appropriate timeframe for a minimum notice period. This timeframe should assist with facilitating more informed planning and investment decisions while also reducing the administrative/compliance burden for generators. In the absence of flexibility to revise closure dates, a longer timeframe would also place an unrealistic expectation of foresight on existing generators and create significant commercial risk for those market participants.

Defining 'closed'

As noted by the AEMC, a decision to retire a generating unit/station is not binary and there are several intermediate options, including mothballing. In Origin's view, 'closed' should describe a generating unit/station that is unable to be recalled and operate.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,



Steve Reid
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