

14 June 2018

Mr. John Pierce
Chair
Australian Energy Market Commission
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Dear Mr. Pierce

Generator three-year notice of closure Rule Change – AEMO submission

AEMO welcomes the opportunity to provide input to the Commission's Consultation Paper on the Generator three-year notice of closure Rule change request.

AEMO is the independent National Electricity Market (NEM) and Western Australian Wholesale Electricity Market (WEM) market and systems operator, and the NEM National Electricity Transmission Planner, with primary responsibility to manage and maintain power system security and reliability. This role is undertaken within the legislated policy and market frameworks of the day and in adherence to the applicable statutory objectives and Rules.

AEMO supports the principle of a binding requirement for large generators to provide notice of closure. This requirement could support forecasting and reliability processes, improve the timeliness of investment signals and mitigate against market shocks.

AEMO's submission below provides our views on the Rule change request, including suggestions that may help to clarify and strengthen the generator reporting obligation, while minimising administrative costs.

If you would like to discuss any aspect of our submission in more detail please contact Greg Ruthven (greg.ruthven@aemo.com.au).

Yours sincerely,



Brett Hausler

Executive General Manager, Regulation and Governance

Benefits of the proposed requirement to provide notice of closure

The Independent Review into the Future Security of the National Electricity Market (Finkel Review) recommended a package of policy initiatives to support the orderly transition of the power system to a low emissions future. This package included “a requirement for all large generators to provide at least three years’ notice prior to closure. [AEMO] should also maintain and publish a register of long-term expected closure dates for large generators.”¹

This recommendation was influenced by the short notice that was provided in the case of the closure of the Northern, Playford B and Hazelwood generators. The notice provided was “well below the time required for replacement generation assets to come online. From a reliability and security perspective, a period of overlap between the entry of new capacity and exit of old is desirable.”²

The recommendation to require generators to provide three years’ notice of closure was endorsed by the COAG Energy Council in July 2017. On 10 May 2018 the AEMC initiated a Rule change process based on a request from Dr Kerry Schott AO (Energy Security Board Chair) to consider changes to the NER that give effect to this recommendation.

AEMO supports the principle of a binding requirement for large generators to provide notice of closure. Such a requirement could have the following benefits:

- The proposed reporting obligation, and associated requirement for AEMO to publish the register of expected generator closure dates, will improve the timeliness of investment signals by increasing transparency for market participants. This should result in increased efficiency of decision making.
- The improved market information will support forecasting and reliability processes if timelines are properly integrated. Expected closure dates will readily flow into periodic planning processes such as AEMO’s Electricity Statement of Opportunities and Annual Planning Reports developed by network service providers and AEMO. To be effective in avoiding shortfalls due to plant closures however, care will be needed to ensure that forward knowledge of a potential shortfall can be acted upon by the market in the first instance, and then by AEMO or other bodies responsible for decision making under the National Energy Guarantee and for the procurement of reserve capacity to contain the risk of energy shortfalls.
- The earlier information on future generator closure will mitigate the risk of market shocks in the form of adverse cost and reliability outcomes.

Indicative drafting of the Rule

The Rule change request proposes changes to various market processes, including registration and deregistration, medium term PASA, semi-scheduled generating unit availability declarations, unconstrained intermittent generation forecasts and the publication of standing data.

AEMO offers the following suggestions to improve the effectiveness of the obligation and assist in achieving the objectives of the Finkel Review recommendation:

¹ *Independent Review into the Future Security of the National Electricity Market, Blueprint for the Future*, p23, available at <https://www.energy.gov.au/sites/g/files/net3411/f/independent-review-future-nem-blueprint-for-the-future-2017.pdf>.

² *ibid.* p87

- The obligation on generators could be strengthened and clarified by requiring an explicit, advance notification of closure that is distinct from the more mechanical deregistration process under clause 2.10.1. This obligation could be subject to civil penalties, consistent with the Finkel Review recommendation that generators should provide a “binding notice of closure”. De-registration of a participant, or termination of the classification of a generating unit, is essentially a voluntary process, and is not necessarily related to the life of the plant.
- AEMO considers that the obligation should apply to all generating units with a nameplate rating of 30 MW or greater, including non-scheduled generating units above this threshold. This is a well understood and accepted threshold in the existing registration framework.
- The Rules can include guidance on how a generator would amend a notification if a closure date changed, and how AEMO would process such an amendment.
- AEMO agrees with the Commission that greater clarity would be beneficial with regard to the definition of “closure” and obligations that should apply in respect of other measures such as mothballing or partial retirement. AEMO welcomes further discussion on these matters.
- To develop the initial register of anticipated closure dates, the requirement on new generators at the time of registration (proposed new clause 2.2.1(e)(2A)) can be supplemented by a transitional provision to require the provision of anticipated closure dates for existing generating units.
- Implementation and administrative costs could be minimised by maintaining the register of expected closure dates through generating unit bid and offer validation data. This would avoid the need for modifications to PASA and associated processes for intermittent generators (noting also that these processes only cover a two-year horizon, which is shorter than the proposed notice period).³
- To maintain clear accountability for operational matters, including preparation of the Energy Adequacy Assessment Projection (EAAP), AEMO recommends that the proposed amendment to clause 3.7C(k) be modified to have AEMO consult with the Reliability Panel when developing scenarios. This would be consistent with the approach specified in clause 3.9.3D(c) of the Rules, which AEMO is required to follow to obtain input from the Reliability Panel when developing the Reliability Standard Implementation Guidelines (RSIG) – that approach has proven to be both practical and beneficial to outcomes, while clearly leaving accountability for managing the RSIG (and in this case, EAAP) with AEMO.

Consideration could be given to the extent to which a generator should be required to make its capacity available during the notification period. While this may increase confidence in the notification process, it would place a higher obligation on a generator that is closing than on other generators in the market.

AEMO looks forward to working with the AEMC to assist in refining the operational aspects of the new generator notice of closure.

³ AEMO notes that any extension of the horizon of PASA, EAAP and/or associated processes would require investment by AEMO and other stakeholders.