



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

Dear Mr Pierce

The Energy and Technical Regulation Division (Division) of the Department of the Premier and the Cabinet thanks you for opportunity to make a submission on the *Generator three year notice of closure* rule change request consultation paper issued on 10 May 2018 (ERC0239).

The Division notes the impetus for the request is to implement a recommendation of the *Independent Review into the Future Security of the National Electricity Market* (Finkel Review), which identified the retirement of existing large coal-fired generators as a key challenge facing the NEM and the achievement of an orderly transition to a low emissions future.

The Division accepts the premise that too 'short' notice of closure of 'large' generators can be problematic to the extent that the market is unable to respond with sufficient replacement capacity within an adequate timeframe. However, many factors are bound up in this equation, including the changing nature of new generation projects, which tend to be smaller, more numerous and can have substantially shorter lead times compared to the exiting capacity, and the outlook for demand. In the current context of a significant and sector-wide transformation, the parameters that influence an individual generator's decision about closure timing may be changing more quickly than is desirable from a broader market and planning perspective.

The recent examples cited, of Northern, Playford and Hazelwood Power Stations, should be examined in terms of their contemporaneous factors, including the absence of policy certainty about an emissions reductions mechanism and the Renewable Energy Target's influence on investment choices.

The Division notes the COAG Energy Council's agreement to further develop the proposed National Energy Guarantee (NEG) for consideration at its August 2018 meeting. We would encourage the Commission to consider the timing of the draft determination for this rule change (16 August 2018) in light of the Energy Council's deliberations on the NEG. In addition, consideration is being given to an enhanced Reliability and Emergency Reserve Trader (RERT) and to the concept of a Strategic Reserve. Resolution of emissions policy and reliability requirements should combine to provide much-needed certainty for investment going forward and may go some considerable way toward dealing with the issues that this rule change request seeks to address.

The rule change request proposes to require *all* scheduled and semi-scheduled generators to provide the minimum of three years' notice of closure, irrespective of size and, therefore, potential impact of that generator's exit. South Australia's existing schedule and semi-scheduled generators range in capacity from 21MW to 800MW, while new developments proposed for this State tend to be in lower half of this range. The general outlook is for the generation fleet to consist of a larger number of smaller to medium capacity plants, rather than the large-scale capacity of coal-fired generators.

Going forward, while an individual generator's exit may be relatively immaterial, the impact of several generators being retired in close succession could in some instances approximate the exit of a single 'large' generator. As such, the broader scope may be appropriate, and is useful in its simplicity and comprehensiveness for forecasting processes.

The proposed rule would allow for less than three years' notice where an event beyond the control of the generator occurred and was not reasonably foreseeable. The recent example of Northern Power Station highlights that market conditions can change rapidly and within the proposed period of notice. Some accommodation is necessary to allow for extenuating circumstances, and recognising other legal obligations governing generation companies. However, there is a risk of uncertainty as to exactly how the proposed rule would play out – for example, who would determine if an event was foreseeable and controllable? This may be moot, to extent that the notice requirement would not be a civil penalty provision. However, failure to adequately restrict the allowance for less than three years' notice could undermine the policy intent of the proposed rule.

The Division supports the incorporation of expected closure year into AEMO's existing forecasting processes, such as MT-PASA and the Statement of Opportunities through the amendments to Chapter 3. However, these amendments may not adequately provide for capturing the 'expected closure year' for all currently registered generators from the outset. They appear to oblige notification only if the year has changed (not the initial notification), while the proposed amendments to Chapter 2 capture the 'expected closure year' only of future registrations. The AEMC should consider a transitional rule to require existing generators to report their 'expected closure year', and a clear definition of what constitutes 'expected closure year'. This would then support the proposed drafting whereby registered generators notify AEMO only if that year changes.

As the reporting elements of the rule change request (amendments to Chapter 3) would have all scheduled and semi-scheduled generators notify of expected closure year, the proposal to require notification of the 'expected closure year' at the time of registration (draft rule 2.2.1(e)(2A)) does not seem to provide any benefit over and above what the applicant would need to do once registered.

As proposed in the request, the notice obligation would appear to operate only in respect of a permanent "closure", being cessation as a Registered Participant, or termination of the classification of the generating unit. The Commission itself has identified that there may be various 'intermediate' options, short of full decommissioning of plant, such as mothballing, temporary or seasonal shutdown, lower output, or other non-availability. These can have a material impact on capacity availability, but are not addressed in the rule change request. For example, mothballing at Pelican Point had a significant impact in South Australia during 2015 and 2016. The Commission may wish to consider how the concept of 'expected closure year' might be defined to incorporate scenarios such as mothballing, or whether plant availability reporting obligations are sufficient in this regard.

The Commission states that the rule change request would be assessed through the lens of improved information, transparency and predictability. Fundamental to this assessment must be consideration also of the quality of the information provided, so that the published information is meaningful to decision-making by investors, to forecasting by AEMO and, potentially, to RERT or Strategic Reserve decisions. The reliability of information depends on participants' ability to forecast closure plans, and willingness to share that information with the market. The question of whether the notice requirements are binding is important. For example, inefficient outcomes could include installation of replacement capacity based on a closure notice where the closure notice is then revised to a later date, or regular revision of closure years or notices resulting in the lack of replacement capacity due to uncertainty.

Thank you for accepting our submission. Should you wish to discuss this further, please contact Ms Rebecca Knights, Director – Energy and Technical Regulation Division, on (08 8226 5500).

Yours sincerely,



Vince Duffy

Executive Director, Energy and Technical Regulation

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