



Final determination on generator three year notice of closure

AEMC makes rule to require generators to reveal their retirement intentions

The Australian Energy Market Commission has made a more preferable rule that will require large electricity generators to provide at least three years' notice of their intention to close. The provision of this information to the market will help minimise the likelihood of any price shocks that could result from sudden retirements. The rule was made in response to a request from Dr Kerry Schott AO, Chair of the Energy Security Board, and was based on one of the recommendations of the Independent Review into the Future Security of the NEM (Finkel Review) related to the need for an orderly transition.

Overview of final rule

The Australian Energy Market Commission (Commission) has made a final rule that promotes reliability in the national electricity market (NEM). The rule requires generators to provide AEMO the expected closure year for all their scheduled and semi-scheduled generation units. It also requires them to provide at least three years' notice of their intention to permanently close a generating unit by notifying AEMO of the date they wish to terminate the classification of the generating unit. The rule permits a generator to provide its first notice of closure with less than three years notice in circumstances where an exemption has been granted by the AER. It also requires an amended notice of closure to provide no less than three years notice from the date the amended notice is provided, unless the closure date extends a previous closure date, or an exemption has been granted by the AER. The provision of this information to the market will assist in managing the market impacts of the retirement of the existing coal-fired generators as they reach the end of their economic lives.

The rule also provides the Reliability Panel with discretion to identify specific energy constraint scenarios to be included for study for the purposes of preparing the Energy Adequacy Assessment Projection (EAAP). This will broaden the nature of input AEMO receives in considering possible energy constraint scenarios and their impact on generation adequacy.

The Commission's rationale

Recent experience shows that sudden and unexpected retirement of large generators can cause undesirable consequences in the market, such as a material increase in wholesale prices. Provided with sufficient notice, the market will have time to respond, minimising the chance of any price shocks.

Similarly, a sudden retirement can leave little or no time for a corresponding level of investment in new generation to replace that which is lost, which can increase potential concerns about reliability as there is less generation to meet demand. These concerns may not eventuate if information on plant retirement is provided to the market in sufficient time for participants to respond as it allows market participants to factor this information into their investment, operational and retirement decisions, potentially changing their decisions. For example, another generator may decide to stay open longer and so invest in extra maintenance in order for this to occur.

Therefore, the Commission considers that it would be beneficial for generators to provide information to the market about their intention to close generating units because:

- improving the transparency of generators' retirement intentions should make it easier for market participants to access that information and factor it into their own decisions about

investment, operation and maintenance, and retirement

- the inclusion of more information in these decisions promotes more informed and efficient decision making.

Ultimately, more informed and efficient decision making in the wholesale market should flow through to lower costs for consumers.

Obviously, increasing transparency will only be in the long-term interests of consumers if the benefits associated with providing the information (described above), outweigh the costs of collecting the information. In this case, the Commission considers that the costs associated with collecting this information for participants and AEMO are relatively small. This reinforces the Commission's view that requiring generators to provide this information would be beneficial to market efficiency.

Benefits of the rule

Having regard to the issues raised in the rule change request and during consultation, the Commission is satisfied that the more preferable rule will, or is likely to, contribute to the achievement of the National Energy Objective (NEO) for the following reasons:

- The rule would improve the provision of information in the NEM in a manner that is clear and supports accountability and confidence in the system. In particular, the reporting requirements clearly define obligations and the parties subject to these obligations. The scope of the rule is also tailored to balance the desire for greater information provision with the commercial and operational realities and costs of providing the information.
- The rule would provide transparency and predictability of information provided to market participants and potential market participants regarding the closure of generation capacity. This information would, in turn, promote efficiency in the investment in and operation of generation capacity and demand response in the NEM because it would provide market participants a clearer expectation of future generation capacity and how best to respond/adapt to changes. The rule, with amendments, is therefore likely to improve the price and reliability of supply of electricity, in the long-term interests of consumers.

Context for rule change request

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 final report was published in June 2017 and 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.

Transition

The commencement date of the rule will be 8 November 2018. However, transitional provisions allow:

- the AER until 31 August 2019 to prepare and publish their exemption guidelines, in accordance with the rules consultation procedures. Generators will only be required to comply with the obligation to provide three years' notice of closure from 1 September 2019.
- AEMO until 1 March 2019 to modify its systems to accept and publish standing data for expected closure years and closure dates. Generators registered on or before 2 March 2019 will be required to provide their expected closure year to AEMO as soon as practicable after that date.

This timetable has been developed to give participants, AEMO and AER sufficient time to prepare for the new framework to come into effect.

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