04 June 2018

Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Electronic Lodgement – ERC0239

Dear Ms Pearson

Generation three year notice of closure rule change proposal – Consultation Paper

Energy Networks Australia welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on the Consultation Paper regarding the Generator three-year notice of closure rule change proposal.

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

The Finkel review included a recommendation that all existing large electricity generators be required to provide at least three years notice prior to closure. The Finkel review suggested this would allow time for replacement generation capacity to be built and affected communities to plan for change.

Both transmission and distribution networks have a fundamental role in ensuring power system reliability and security, and the closure of generation (predominantly coal fired power stations) in the National Electricity Market (NEM) naturally has implications for these functions, as it will also have on the NEM's overall market structure. Managing the orderly transition also needs to extend to the provision of any required new infrastructure to support new generation in other areas of the grid. This new infrastructure may be able to be built within the three years, however in some cases it may take longer.

Energy Networks Australia is generally supportive of the intent of the rule change proposal and welcomes its progression in line with the Council of Australian Governments' Energy Council's endorsement of the recommendation in the second half of 2017.

Our detailed comments are provided in the Attachment. In summary:

- We support the improved provision of information and the enhanced transparency and predictability. It is important to have an unambiguous definition of expected closure date that covers the intent of level of supply being available in the market.
- It is also important to take into account optimal and efficient transmission development, and system operation in the National Electricity Market (NEM) and not just focus on new (replacement) generation in the NEM.
- The three year notification period for the addition of new (replacement) generation capacity should in most circumstances be adequate, however there may be instances where transmission capacity is lagging the new generator capacity, and
- Additional reporting and updating via the Projected Assessment of System Adequacy (PASA) processes is supported.

Should you have any additional queries, please feel free to contact Ms Verity Watson – Head of Transmission on 0404 098 597 or vwatson@energynetworks.com.au

Yours sincerely,

Andrew Dillon
Chief Executive Officer

Attachment

1.1 Nature of the policy change

As noted in the Consultation Paper short notice of closure of large generators could lead to inadequate generation to meet demand. Energy Networks Australia submits that it could also lead to interconnector and transmission infrastructure that may unable to deliver all of the new generation into the market leading to sub optimal outcomes for customers.

Concerns with a short notice timeframes include:

- Lack of adequate time to take into account relevant network planning and system operation impacts.
- Lack of adequate time to model consequential technical and operational issues. For example, impacts on: protection systems, frequency control, voltage control, transient and oscillatory limits, network constraints, changing network flows, and power quality issues that needs to be addressed.
- Lack of time for contractual amendments to some existing connection agreements.

Energy Networks Australia considers that the draft Rule does not sufficiently specify the intent of the notice period to ensure this mandatory notice achieve its purpose. The defined term 'expected closure date' needs to clearly encompass the following:

- The generator is actively bidding into the market for the full notice period, the plant is not mothballed/cold during this period;
- In principle generators are able to generate up to their nameplate or notified capacity limits until the expected closure date;
- The generator is maintaining all insurances and maintenance programs to the extent possible;
- Nothing should specific that a generator must keep operating during the notice period if the plant is not economically viable as this would be inconsistent with Corporations Law; and
- The generator remains registered in the market and appropriately licenced during the notification period.

1.2 Nature of Requirement to notify AEMO of closure

The new rules proposal includes requirements that:

- New scheduled and semi scheduled generators notify an expected closure date on registration;
- A closure date could be earlier than three years from the date the notice is given where an event is beyond the reasonable control of the generator and where the event could not reasonably have been foreseen;

- Existing scheduled generators notify an expected closure date as part of the medium term Projected Assessment of System Adequacy (PASA) process and provide any updates to the expected closure date as required; and
- Existing semi scheduled generators notify an expected closure date as part of the PASA process and provide any updates to the expected closure date as required.

Notification of an expected closure date through the above processes appears reasonable. There may be opportunity to align the medium term PASA timeframes of 24 months to the three year closure notice.

Energy Networks Australia also considers there is benefit of the expected closure dates and any reduced generation capacity being included in subsequent AEMO Integrated System Plans (ISP) or equivalent documents.

1.3 Appropriate minimum notice period

The Finkel recommendation intended to provide an appropriate time period for replacement generation to be built. For new generation at least three years notice appears reasonable, however this timeframe may not always be enough for any new interconnectors or significant infrastructure development. It is important that these expected closure dates are considered in the ISP or its equivalent and the timing implications considered in major infrastructure planning.

Transmission planning horizons are 5-10 years and include regulatory investment test processes which can take 12-18 months, gaining access to easements 12-24 months and construction which can take around 2 years depending on line lengths to be built. Once this rule commences and the first PASA processes have been completed we understand that there will be a table of all generation and semi scheduled generation with an expected closure date. This clear notification will be helpful for transmission planning processes.

1.4 Size of generator threshold

The rule change proposal applies to scheduled generators and semi scheduled generators, that is, generators with a name plate capacity above 30MW. Energy Networks Australia considers this size threshold is reasonable and practical.

The new rules do not apply to non-scheduled generators.

1.5 Compliance and penalties

The Finkel review suggested that the notice of closure requirement be binding while the register of long term expected closure dates should be non-binding. The AEMC notes that the proposed rule as drafted requires the generators as part of the PASA

processes to provide the expected closure dates and that these clauses are subject to civil penalty.

The AEMC also notes that while a generator may provide an intended closure date, it does not mean that that they would make themselves available in the market until this closure date. The expected closure date needs to consider how mothballed plants or single unit retirement is treated. The rules information requirements need to encompass the expected closure date for each generating unit and any expected reduced capacity of a generating unit.

There should be a focus on an unambiguous definition of expected closure date, so potential disputes are mitigated. The definition may be as simple as the time at which a generator ceases to supply electricity into the market at the notified capacity indefinitely. A mothballed, registered generator could remain "in the market" as an inactive generator past its expected closure date.

It is expected that generators give notice of expected closure dates, and encompassing those elements of closure identified in Section 1.1 above, in good faith. However we recognise that a range of factors can impact generator plant performance and on-going financial viability. There should be no obligation on a generator to continue generating until the expected closure date where the generator is making a loss and early closure is the best option. Energy Networks Australia supports appropriate exceptions for generators who need to close earlier than the expected date. The rules need to strike the best balance for planning of new generation and network infrastructure and exceptional circumstances that may be encountered by existing generators.

1.6 Proposed changes to Energy Adequacy Assessment Projection (EEAP)

Energy Networks Australia supports the drafting that allows the Reliability Panel to specify scenarios they consider should be reviewed for the purposes of preparing the EEAP.