

9 June 2021

Dr Kerry Schott AO
Chair
Energy Security Board
info@esb.org.au

Dear Ms Schott,

RE: Post 2025 Market Design Options

Thank you for the opportunity to make a submission in response to the Post-2025 Market Design Options paper.

Environment Victoria (EV) is an independent and not for profit organisation that has been campaigning to look after Victoria's environment since 1969. With more than 40-grassroots member groups and 200,000 individual supporters, Environment Victoria is a growing community of Victorians standing up for a safe climate, healthy rivers, and a sustainable future. A long-standing priority of our work has been, and continues to be, pushing for faster action on climate change, with a focus on the phase-out of Victoria's brown coal power stations and their replacement with clean energy, along with improvements in energy efficiency, and with genuine transition plans for communities like the Latrobe Valley.

While we appreciate the technical challenges created by the rapid transition occurring in the energy market, we are concerned that some of the options being considered in the post-2025 market design process will serve to extend the lives of coal power stations (at public expense) and therefore keep Australia's greenhouse gas emissions higher than they might otherwise be.

It is our position that there should not be a policy mechanism that has the effect of keeping coal generators in the system for reliability purposes if there is not also a policy mechanism for ensuring coal generators retire quickly enough to meet global climate goals.

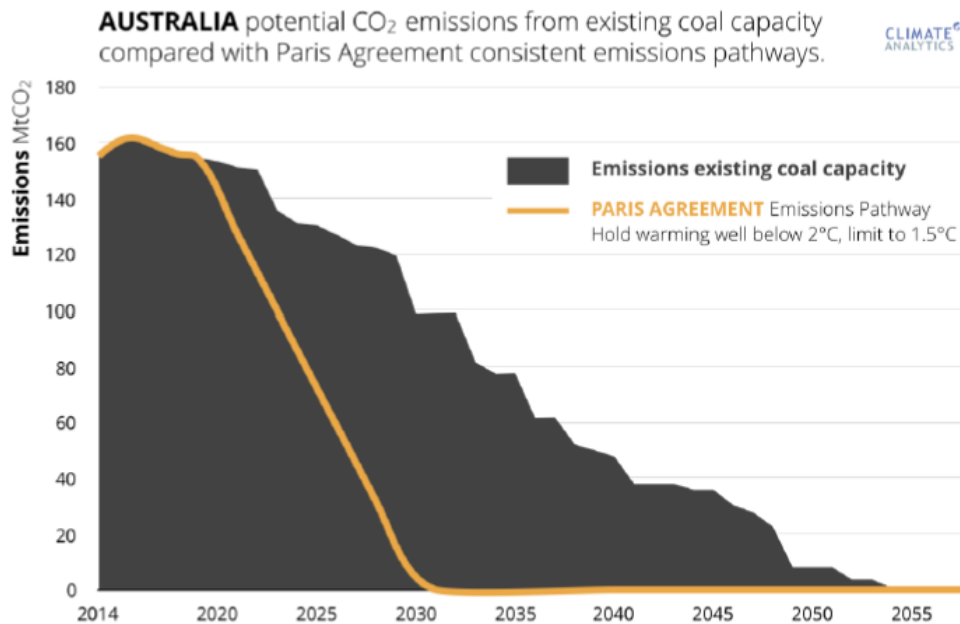
Currently, the closure schedule for Australia's coal fleet is inconsistent with a pathway to meeting the objectives of the Paris Agreement. The chart below (Climate Analytics, 2019) demonstrates that Australia's coal generators operating under the "end of their technical lives" and existing closure dates will result in approximately twice as many cumulative emissions as a closure trajectory consistent with the Paris Agreement.¹

More recently, the UN Secretary General has called on developed countries to phase out coal generation by 2030.² Last month's *Net Zero by 2050* report by the International Energy Agency

¹ <https://climateanalytics.org/publications/2019/for-climates-sake-coal-free-by-2030/>

² <https://www.reuters.com/article/us-global-energy-coal-climate-trfn-idUSKCN2AU29W>

mapped out a pathway that involves all sub-critical coal being closed by 2030 and advanced economies having net zero electricity by 2035.³



The changing economics of coal in Australia’s energy market are certainly shifting towards earlier closures – and this is to be welcomed from a climate perspective – but in our opinion it is not sufficient for governments or market bodies to simply rely on these changing economics as the mechanism by which retirements occur. In other words, there is currently no policy in Australia (at national or subnational level) that *requires* the phase-out of coal generators. Given that these coal generators are responsible for around a third of national emissions (up to 40% in Victoria), we see this as a fundamental gap.

It is in that context that we argue against a Physical Retailer Reliability Obligation, which would serve to keep coal generators operating for longer than might otherwise be the case, thus making our contribution to the climate crisis worse than it might otherwise be.

The Physical RRO would effectively be a public subsidy to coal generators and would add to cost to consumers when we don’t believe the need for it has been established. The “immediate measures” identified in the discussion paper, along with other tools such as the Reliability and Reserve Trader and regular and transparent reporting via the Electricity Statement of Opportunities, should serve to more than adequately manage the risk of earlier closures.

A major source of the problem that is trying to be solved is the lack of transparency and honesty from the owners of coal generators about realistic closure dates. For example, does anyone anywhere actually believe that AGL’s Loy Yang A will still be operating in 2048? Yet this is the

³ <https://www.iea.org/reports/net-zero-by-2050>

“official” closure date, based on an artificial assessment of the power stations “technical life” (even though Loy Yang A would be 60+ years old in the late 2040s).

The lack of transparency and honesty about closure dates reached peak destructiveness in February 2016 when Engie management told a Latrobe Valley community forum that the Hazelwood power station would run until 2032. Just 7 months later, they announced that Hazelwood would close in 2017 – 13 months after saying it would run for another 16 years. This is not only problematic for energy market planning – it is also terrible for enabling the community and others to prepare for the local socio-economic consequences of closure. Each time a power station owner claims that they’ll run for another 20+ years, it serves only to delay the planning that both the energy system and the local community and workforce need to do.

Jotzo & Mazouz from ANU⁴ and the Blueprint Institute⁵ have put forward possible mechanisms for managing earlier closures (though we note that the timeframe suggested in the Blueprint Institute is much slower than the growing consensus around 2030 coal retirements in developed countries).

On the idea of Orderly Exit Management Contracts (OEMC), our position is that 1:1 deals between governments and coal generator owners is not ideal and is not a substitute for a systematic policy mechanism that requires the phase-out of coal generation on a timetable consistent with emissions outcomes. Having said that, the recent announcement of an agreement between the Victorian government and EnergyAustralia for the slightly earlier closure of Yallourn power station shows that this pathway effectively already exists.

If this approach were to be formalised within AEMO rules, any OEMC should ensure greater transparency than is the case for the Yallourn agreement. It should also have flexibility bring forward closure further, rather than lock in an earliest closure date as the Yallourn agreement appears to. Any OEMC should also be subject to regular review under a “System and Market Impact Assessment” (SMIA). If an SMIA is required before an OEMC can be entered into, we suggest there should be regular (eg. yearly) re-assessments under the SMIA framework to assess whether the power station subject to the OEMC could in fact close earlier than originally agreed if the risk calculation has changed.

OEMCs should also be careful to ensure that the cost of any maintenance is borne by the power station owner and that this cost is not shifted to the public. It is easy to foresee a situation in which an owner decides that, since the generator is contractually required to continue operating, they can underspend on maintenance and then go cap in hand to government saying that public investment is needed to ensure availability.

To summarise, we are in the midst of a climate crisis and all scientific evidence is that we are rapidly running out of time to cut emissions by enough to avoid irreversible tipping points in the climate system. The next decade is critical, and leading advice suggests that developed countries should have phased out coal generation by 2030.

⁴ <https://ccep.crawford.anu.edu.au/departments-news/7022/phasing-out-emissions-intensive-power-stations>

⁵ https://www.blueprintinstitute.org.au/phasing_down_gracefully_halving_electricity_emissions_this_decade

We urge the ESB to ensure that whatever mechanisms are put in place to manage reliability concerns do not undermine the capacity of governments and corporates to aim for these vitally important emissions outcomes. Indeed, we would prefer to see a mechanism that actively drives a planned phase-out of Australia's coal generation, not simply a response to the consequences of market pressure.

Regards,



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