

# Generator Notice of Closure Exemption Guideline

Consultation Feedback

April 2019

## Table of Contents

1.	Introduction.....	3
2.	Consultation Feedback.....	3
2.1	Information to be provided by generators.....	3
2.2	Procedure .....	5

## 1. Introduction

From 1 September 2019, generators in the NEM will be required to provide at least 3 years advance notice of their intention to close, unless granted exemption by the Australian Energy Regulator (AER). The AER is required to develop and publish guidelines on how these applications for exemptions will be handled, and what type of information the applicants will be required to submit.

In developing these guidelines, the National Electricity Rules requires the AER to go through a consultation process. The AER set a series of topics and questions, for which Pacific Hydro is pleased to provide the following notes and comments.

## 2. Consultation Feedback

The AER is seeking comment from generators on the following 3 main topics:

1. The information to be provided by a generator when applying for an exemption.
2. The procedure for handling applications for an exemption.
3. The factors and criteria that may influence AER's consideration of exemption applications.

### 2.1 Information to be provided by generators

When seeking an exemption there are a number of factors and situations that may occur that will be particular to each generator. It is not expected that the AER will have a complete list of scenarios in which generators can reference when seeking an exemption however guidelines should be sufficiently broad enough to encompass any particular scenario.

The closure of a generator will always have an effect on the grid, especially within the region in which it is located by directly altering the regional availability and reserve assessment. However the impact of small capacity generators on the grid is less than that of larger ones. Planning for the replacement of small capacities should not take the same amount of time as for larger ones, and therefore the treatment should not be the same. It is Pacific Hydro's view that the AER should set thresholds based on capacity or historical generation that determine whether exemptions apply through the closure process. Generators of up to 30 MW should be exempt from the process.

In addition, those generators that are approaching end of life may have a repowering plan and may also operate beyond their design life depending on plant condition. It would be preferable if there were allowances within the guideline to seek exemptions to the notification period where the participant can demonstrate that a plan is underway to repower the site. In such cases there would not be a permanent loss of the generation rather a period of time in which the site output would be zero.

For scheduled generators or those that have a capacity above 30 MW, the Closure Exemption Guideline, in Pacific Hydro's opinion, should consider the following scenarios when determining the information to be provided by generators.

#### 2.1.1 Scenario 1: Rule change timing impacting generator's notification ability

Generators who have planned to retire in the next three years are not currently obligated to notify for the period beyond the midterm PASA<sup>1</sup> and the three year notification will be commencing in September 2019. This means generators that are planned to close between September 2019 and September 2022 should be allowed to notify of their expected closure despite it being shorter than three years. This would be a reasonable transition for the introduction of the rule.

All other scenarios where generators have adequate time to plan the retirement of their assets are considered below.

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<sup>1</sup> Projected Assessment of System Adequacy

### **2.1.2 Scenario 2: Failure, definitive shutdown**

When generators are operating within the end of their operational life, it is normal to experience higher operational costs. A significant failure occurring during this period may trigger an early closure decision as the asset is no longer financially viable and it will not be economically feasible to invest in a fully depreciated asset that only has a few years of operation left.

Such a failure places the participant under obligation to inform AEMO (and the market) of the loss of the generation. Any such failure would require some time to assess and understand what can or cannot be done to recover the generation capacity. There should be some obligation on the participant to keep the AER informed through this process and provide a submission of Closure Exemption to the AER when recovery is unlikely.

Under this scenario, the generator should show the AER proof of the failure and the reasons why an exemption is sought. Some generators may have already submitted a notification but would now be seeking to shorten that notice. It is considered appropriate that all technical information related to the failure should be provided to the AER as well as economical information (financial models) that support the closure decision.

It is important to note that the economical exercise will contain company specific confidential information (O&M values, repairing costs, future market prices and conditions, etc.) and therefore Pacific Hydro requires all information provided to the AER to not be made public.

### **2.1.3 Scenario 3: Failure, repower**

Similar to the previous scenario, a significant failure in the asset occurs but the owner is investigating repowering the asset and returning it into service. Any loss of generation within this scenario would not be permanent. Participants seeking an exemption as a result of a site failure that triggers a premature shut down and repower, should indicate the expected period for the repowering process.

The following information could be provided by participants to the AER:

- Technical details of the failure that prevents the continuity of the operation
- Repowering plan, indicating the overall process and expected timing

If the economic evaluation or other factors prevent the asset from being repowered then the evaluation should be provided to the AER as supporting evidence for exemption.

All of the information listed above and provided to the AER should remain confidential and not be publicly disclosed as it could significantly affect the delivery of the project. Furthermore, the AER should not publicly disclose the fact that the company is looking into the alternative of repowering their asset, as there may be issues with notification to the landholders on which the project is sited. Where landholder agreements are under renegotiation or extension discussions, it would be required to allow these to proceed through the normal commercial processes.

### **2.1.4 Scenario 4: Changes in market conditions**

Significant changes in market conditions may affect the economic viability of an operating asset and should be considered as a reasonable motive for closure notification exemption. Generators should not be forced to operate an asset if it negatively impacts their business to do so.

If for technical reasons, the AER considers necessary the operation of the asset (due to grid stability or dispatchability of the system for instance), then a discussion between regulatory entities and the generator can be facilitated to find an alternative solution. This should be included as an additional step in the process.

If closure is sought, then the generator should provide condition reports of the asset and economical information (financial models) that support the closure decision. Any information provided should not be publicly disclosed by the AER.

### **2.1.5 Scenario 5: Failure after notification**

If a generator, having notified the AER of asset shutdown experiences unexpected events including a significant failure forcing them into bringing the shutdown ahead of the notified time period, then it is recommended that generators follow the process outlined in Scenario 2: Failure, definitive shutdown. If a generator is expecting to repower the asset then it is recommended that generators follow the process outlined in Scenario 3: Failure, repower.

## **2.2 Procedure**

The general procedure in the Closure Exemption Guideline document is outlined below:

1. Receive application and consult relevant parties as necessary
2. Determine a draft position, and consult relevant parties further
3. Make final decision

Although the procedure is adequate, additional steps should be considered to incorporate the additional scenarios previously discussed. Additional steps in the process for decision making include:

- a. Safety condition – Full disclosure of the loss of the asset or the safety issue causing the shutdown.
- b. Condition analysis – Details of the condition of the asset including Condition Reports.
- c. Economic analysis – Economic analysis to evaluate if the asset is to be permanently decommissioned based on significant failures or market conditions.
- d. Repowering analysis – If the decision from the generator is to repower the asset, then time would be needed for leases extensions, redesign, tendering, regulatory approvals, etc.

These additional steps above should be considered within the general procedure to accommodate the different scenarios presented and could be positioned between Step 1 and Step 2 above.