

Chapter 4

Options for managing the transition away from coal fired power stations

4.1 Stakeholders to the inquiry commented at length on how a phased closure of coal generators could be best managed. In particular, the need for the development of a national transition plan was highlighted, integrating energy and climate policy as well as coordinating the response to assist affected workers and communities.

Need for a national transition plan

4.2 Support for a consistent, long-term national transition plan was widespread among submitters to the inquiry. Engineers Australia argued:

...the Australian government needs to create a transition plan which outlines policy mechanisms to encourage the retirement of Australia's highest emitting power stations, while also providing options for affected workers and communities...Without a clear plan, Australia risks the potential to lose a large portion of its generating capacity in a short period without any alternatives in place, while at the same time undermining its Paris COP21 commitments.¹

4.3 Engineers Australia submitted that this transition plan should outline:

- how Australia will achieve its emission reduction targets through the electricity generation sector, outlining a transition from fossil fuel power plants to renewable and low carbon emission options;
- a timeline for when Australia will begin the transition away from major capacity fossil-fuelled power stations, and what generation options will be used to replace them;
- the obligation costs that the major fossil fuel power stations will incur when exiting the market, outlining incentives to exit where required;
- incentives for investors of new zero and low emission technologies with policies to run alongside research and development, drawing on market forces where possible;
- changes to the electricity grid to accommodate more distributed generation and management of supply availability and resilience; and
- policies for increased reliability and resilience of Australia's electricity system through a mix of generation and distribution applications, energy storage solutions and smart-grid technologies.²

1 *Submission 11*, p. 4.

2 *Submission 11*, pp. 9–10.

4.4 In relation to transition planning, Alinta Energy stated:

An area for further thought and improvement to consider is in the area of planning the transition to closure where orderly exit can be greatly enhanced by an effective generator transition plan published in advance for the entire market and an appropriate energy and renewable policy framework.³

4.5 The Electrical Trades Union (ETU) argued that a national transition plan is required to 'ensure that Australia's transition is managed in a fair and just manner, where affected workers and communities are supported to find secure and decent jobs in a clean energy economy'.⁴

4.6 Some submitters and witnesses commented that the different climate and energy policy settings pursued by various state and territory jurisdictions in Australia increased complexity and uncertainty for market participants, and that a more cohesive national framework is required. The Australian Energy Council stated:

Without material changes to better integrate carbon and energy policy in national frameworks, Australian energy customers will pay more for their electricity, or potentially face more supply risk, in the transition to achieving a cleaner energy system. A national carbon reduction mechanism will provide more efficient and reliable national abatement outcomes than a series of disconnected targets and schemes in individual jurisdictions.⁵

4.7 The Australian Mines and Metals Association submitted that Australia should develop a National Energy Transition Plan, including harmonised renewable energy targets that ensures affordable, reliable and secure energy and delivers just, stable, predictable and measured transitions.⁶

Establishment of a statutory authority to manage the transition process

4.8 Several stakeholders argued that establishing a new statutory authority to manage this transition would be the most effective way to ensure a consistent, long-term national plan.

4.9 The Australian Council of Trade Unions (ACTU) recommended that the Australian Government establish a national independent statutory authority, named Energy Transition Australia (ETA), within the environment and energy portfolio, 'to navigate the transition to a clean energy economy'. The ACTU outlined the benefit of this approach as follows:

The key focus of the ETA will be to minimise the impact of unplanned closures on workers and their communities through managing this transition in a regulated manner and developing plans to ensure the ongoing economic prosperity of affected regions. Given Australia's current energy mix and the

3 *Submission 27*, p. 5.

4 *Submission 2*, p. 5.

5 *Submission 44*, p. 6.

6 *Submission 67*, p. 6.

need for substantial investment in renewable energy, it is important that this transition is managed carefully and in a manner that supports the continued supply of electricity...

Creating a body that has the freedom, independence and mandate to adopt a long term approach to managing this transition will help ensure that decarbonisation occurs efficiently and fairly – without working people and their families bearing the brunt of this transition and being plunged into unemployment or insecure work through a sudden plant closure.⁷

4.10 The ACTU argued that while a number of federal bodies have already been established to advise on climate policy and support investment in renewable energy, an independent authority to manage the overall transition process is 'an important part of the mix' to implementing a cohesive national policy framework in this area.⁸

4.11 The proposed new authority would be overseen by a tripartite advisory board comprising industry, unions and government, and would be responsible for reporting to parliament and the responsible minister.⁹ Under the ACTU's proposal, the role of the new authority would be to:

- oversee a planned and orderly closure of Australia's coal fired power stations;
- manage an industry-wide multi-employer pooling and redeployment scheme, where existing workers would have an opportunity to be redeployed to remaining power stations or low-emissions generators; and
- develop a labour adjustment package to support workers obtain new decent and secure jobs, including by providing funding for workers to access job assistance support, retraining, early retirement and travel and relocation assistance.¹⁰

4.12 The ACTU noted that various models, including the Jotzo model, have been proposed in relation to determining the order and timing of plant closures, and proposed that the new statutory authority would be responsible for selecting and administering the most appropriate mechanism to facilitate these closures.¹¹

4.13 The ACTU's proposal states that the new authority could also undertake a review of the National Energy Market regulatory bodies¹² to ensure that the roles and

7 *Submission 17*, Attachment 1, p. 18. The Electrical Trades Union outlined a plan for the establishment of a similar body, a 'Just Transition Commission', see *Submission 2*, pp. 10–11.

8 *Submission 17*, Attachment 1, p. 18.

9 *Submission 17*, Attachment 1, p. 18.

10 *Submission 17*, p. 2.

11 *Submission 17*, Attachment 1, pp. 18–19.

12 These bodies are: the Australian Energy Market Commission, the Australian Energy Regulator and the Australian Energy Market Operator.

activities of these agencies are consistent with the low emissions modernisation of the electricity sector.¹³

Developing region-specific plans

4.14 Additionally, the ACTU's proposed new authority would work with all three levels of government in Australia to develop specific plans for regions affected by the closure of coal fired power stations.¹⁴ This would include:

- mapping potential new industries to affected regions based on competitive and other advantages as well as worker skills. As part of this mapping exercise, infrastructure gaps should be identified and prioritised.
- Developing and implementing specific industry and environmental policies to attract new investment, the growth of new industries and the creation of quality, secure jobs in affected regions. Such policies could include additional renewable energy investment incentives, investment tax incentives and the prioritised construction of new infrastructure.¹⁵

4.15 WWF–Australia supported the ACTU's proposal, arguing that the establishment of an oversight body to manage the transition process has been a key to successful transitions in other international jurisdictions.¹⁶

4.16 The Australian Greens introduced a bill into the House of Representatives on 21 November 2016, which seeks to establish a statutory authority, Renew Australia, to plan and drive the transition to a new clean energy system in Australia. The functions of Renew Australia would include:

- overseeing the implementation of new energy objectives to achieve 90 per cent renewable electricity generation in Australia by 2030; and
- laying out a timetable for the planned closure of coal fired power stations in Australia, with a default plan involving the closure of all plants by 2030.¹⁷

A 'just transition' for workers and communities

4.17 One of the arguments posed in favour of a strategic national plan to retire coal fired power stations is that it reduces uncertainty for workers in the industry and allows them to plan for a future without coal.

4.18 In the past fifteen years, there has been a push by labour organisations and environmentalists across the world for what is termed a 'just transition'. A 'just transition' is defined as linking 'ecological sustainability with issues of work, equity

13 *Submission 17*, Attachment 1, p. 17.

14 *Submission 17*, p. 2.

15 *Submission 17*, Attachment 1, p. 5.

16 WWF–Australia, *Submission 77*, p. 9. See also Electrical Trades Union of Australia, *Submission 2*, p. 10.

17 Renew Australia Bill 2016, clause 11 and Schedule 1; Explanatory Memorandum, pp. 2–3.

and social justice'.¹⁸ In discussing 'just transition' policies in Australia, Geoff Evans of the University of Newcastle states that:

A just transition process recognises the needs of both current and future generations for safe, secure and satisfying jobs. Participants in a just transition seek to build collaborations rather than conflict, and in particular, to avoid a false 'jobs vs. the environment' conflict. A just transition is needed to ensure that the costs of change do not fall on vulnerable workers and communities.¹⁹

4.19 The ETU noted that prior to the Paris meeting, the International Labour Organisation (ILO) had published guidelines on how to achieve a 'just transition' for workers and communities.²⁰ The concept of a just transition was subsequently incorporated into the preamble of the Paris Agreement, which states that Parties, in signing up to the agreement will:

*[Take] into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities...*²¹

4.20 Ms Ged Kearney, President, Australian Council of Trade Unions explained the principles of 'just transition' as follows:

From our perspective, the key principles underpinning a just transition include: equitable sharing of responsibilities and fair distribution of the costs across society; institutionalised formal consultations with relevant stakeholders, including trade unions, employers and communities at both national and regional levels; the promotion of clean job opportunities and the greening of existing jobs and industries through public and private investment in low-carbon development strategies, and, alongside that, organised economic diversification policies for those communities at risk; formal education training, retraining and lifelong learning for working people; and social protection measures—that is, active labour market policies; access to health services and social insurances, among other things; and respect for and protection of human and labour rights. We believe that, in signing the Paris Agreement, the federal government has an

18 Geoff Evans, 'A Just Transition to a Renewable Energy Economy', *Chain Reaction*, No. 103, September 2008, p. 13.

19 Geoff Evans, 'A Just Transition to a Renewable Energy Economy', *Chain Reaction*, No. 103, September 2008, p. 13.

20 *Submission 2*, p. 6. See also International Labour Organisation, *ILO adopts guidelines on sustainable development decent work and green jobs*, 5 November 2015. Available at: http://www.ilo.org/global/topics/green-jobs/news/WCMS_422575/lang-en/index.htm (accessed 21 November 2016).

21 United Nations Framework Convention on Climate Change, Paris Agreement, 12 December 2015.

obligation to responsibly plan and manage the transition to a clean-energy economy in a way that puts working people and their communities first.²²

4.21 In its submission, the Construction, Forestry, Mining & Energy Union (CFMEU) stated that:

...if Australia is capable of having climate policy that requires all or most of the electricity sector to be low or zero greenhouse gas emission, then it should also be capable of planning for the social impacts that arise from that. Governments have a duty to manage the impacts of their policies.²³

4.22 The Australian Manufacturing Workers Union submitted that in regions affected by coal station closures, the government must take steps to support investment which attracts businesses able to utilise the existing skills base of affected workers:

For example, solar-thermal power provides a renewable source of base-load energy generation and requires a much larger workforce than solar-radiation power generation. Many of the skills required to maintain and operate such a power station are very similar to those required in a coal fired power station. In addition, manufacturing businesses would be well suited to many of the affected regions because they require employees with very similar skills to power station workers.

Attracting new businesses to these areas and assisting existing small and medium sized businesses to grow is the missing piece of the federal government's usual approach to address the problems created by the closure of a major employer. This approach supports workers, their families and their communities by creating quality jobs that provide decent work in the affected region.²⁴

International experiences

4.23 The committee took evidence from witnesses with experience managing the current transition of the coalmining industry in Germany. Mr Norbert Maus of the RAG Corporation explained to the committee that a decision was made in 2007 that the coalmining industry in Germany would 'most likely' end by 2018:

We had a total of 11 years, of which nine have passed, to prepare and work towards this. We talked with our colleagues; we talked with everybody; we held all the necessary discussions to make clear to everybody that the political decision to end coalmining by 2018 had been taken. Of course, in 2007 we had the figures around how many people would be eligible for early retirement and, if they were not, what we could do, how many people were in fixed term contracts and so on. Our focus has always been on the people, to make sure that we help them and support them. We will now work till the end of 2018 within the funding that we have and we will

22 *Proof Committee Hansard*, 9 November 2016, p. 27. See also Electrical Trades Union of Australia, *Submission 2*, pp. 6–7.

23 *Submission 18*, p. 9.

24 *Submission 60*, p. 4.

continue to produce coal until then. I am very happy with the way we have implemented the process so far.²⁵

4.24 The ETU stated that, historically, industry transitions had not been carried out well in Australia:

Transitioning an industry is a massive economic and social disruption and is something that has been done poorly to date in Australia. History shows that workers and communities often bear the brunt of such transitions suffering hardship, unemployment and generations of economic and social depression.²⁶

4.25 In particular, the experiences described in Germany can be contrasted with the recent announcement of the closure of the Hazelwood power station. On 25 May 2016, ENGIE's chief executive officer Ms Isabelle Kocher stated before a French senate committee that ENGIE was planning to gradually withdraw from coal fired power generation in its international operations.²⁷ Ms Kocher told the French senate committee that:

For the Hazelwood plant, we are studying all possible scenarios, including closure, or a sale if the state of Victoria tells us that it cannot meet power-generating needs without this plant.²⁸

4.26 After Ms Kocher's comments were published in the Australian media, ENGIE released a media statement which emphasised that any decision on the future of the station must be made by the ENGIE Board with approval from the ENGIE and Mitsui shareholders. ENGIE stated that this decision was yet to take place, and that business would continue despite the difficult trading conditions.²⁹

4.27 From May to November 2016, it was unclear whether ENGIE would move to close the plant. Victorian Energy Minister the Hon Lily D'Ambrosio, stated in May 2016 that she had been told that 'there are no immediate plans to shutdown or sell off Hazelwood'.³⁰ However, on 24 September 2016, it was reported that ENGIE was

25 *Proof Committee Hansard*, 9 November 2016, p. 23.

26 Electrical Trades Union of Australia, *Submission 2*, p. 4.

27 Melissa Davey and Reuters, 'Australia's dirtiest power station may be closed or sold, French owner says', *The Guardian*, 26 May 2016. Available at: <https://www.theguardian.com/australia-news/2016/may/26/hazelwood-power-station-may-be-closed-or-sold-off-french-owner-says> (accessed 16 November 2016).

28 Melissa Davey and Reuters, 'Australia's dirtiest power station may be closed or sold, French owner says', *The Guardian*, 26 May 2016.

29 ENGIE, 'Hazelwood', *Media statement*, 26 May 2016. Available at: <http://www.gdfsuezau.com/media/UploadedDocuments/News/Hazelwood%20statement%20-%20Media%20Release%202.pdf> (accessed 16 November 2016).

30 Ben Potter, 'Hazelwood closure could mark beginning of end for Victoria's brown coal', *Australian Financial Review*, 26 May 2016. Available at: <http://www.afr.com/business/energy/french-energy-giant-engie-mulls-closure-of-hazelwood-power-station-20160525-gp426a> (accessed 16 November 2016).

expected to hold a board meeting in mid-October in order to finalise a decision regarding the potential closure of Hazelwood.³¹

4.28 On 3 November 2016, ENGIE announced that it would close Hazelwood by the end of March 2017. Mr Alex Keisser, Chief Executive of ENGIE in Australia, stated in a media release that:

Hazelwood is now more than 50 years old. It has been a wonderful contributor to the National Electricity Market but we have now reached the point where it is no longer economic to operate ... ENGIE in Australia would need to invest many hundreds of millions of dollars to ensure viable and, most importantly, continued safe operation. Given current and forecast market conditions, that level of investment cannot be justified.³²

4.29 Mr Keisser said that a number of options had been assessed, such as revamping the existing infrastructure, repowering with different sources of energy, or reducing the number of operational units. However, this was found to be economically unviable and the station's eight generators would be closed by 31 March 2017.³³

4.30 An open letter was also issued to the public by Mr Keisser, which recognised the impact that closure would have on workers and the neighbouring communities. The letter stated:

At this time, our priority is to support our people as we prepare for closure. Departing ENGIE employees will receive all their entitlements, including a redundancy package. They will also have access to a range of support services.³⁴

4.31 In relation to the closure process, ENGIE's letter stated:

While this decision will obviously have an impact on the local community, I assure you we will work with governments, regulators, unions and regional residents to ensure an orderly closure, including comprehensive rehabilitation of the mine and remediation of the power station site.³⁵

31 Josh Gordon and Adam Morton, 'Hazelwood shutdown: Victoria's dirtiest power station set to close next year', *The Age*, 24 September 2016. Available at: <http://www.theage.com.au/victoria/hazelwood-shutdown-victorias-dirtiest-power-station-set-to-close-early-next-year-20160923-grn0ph.html> (accessed 16 November 2016).

32 ENGIE Australia, 'Hazelwood to close in March 2017', *Media release*, 3 November 2016. Available at: <http://www.gdfsuezau.com/media/UploadedDocuments/News/Hazelwood%20Clousure/Hazelwood%20closure%20-%20Media%20release.pdf> (accessed 10 November 2016).

33 ENGIE Australia, 'Hazelwood to close in March 2017', *Media release*, 3 November 2016.

34 ENGIE Australia, *Open letter to the community*, 3 November 2016. Available at: <http://www.gdfsuezau.com/media/newsitem/Hazelwood-to-close-in-March-2017> (accessed 16 November 2016).

35 ENGIE Australia, *Open letter to the community*, 3 November 2016.

4.32 ENGIE also foreshadowed the possibility of the sale of the Loy Yang B coal fired power station in the Latrobe Valley, which provides up to 17 per cent of Victoria's power supply.³⁶

4.33 At the committee's public hearing in Melbourne, residents from the Latrobe Valley highlighted the impact of this uncertainty has had. Mr Ron Ipsen, Vice President of Voices of the Valley, told the committee:

We are finding that a lot of the distress in the workers and within the community is around uncertainty, and we believe that the only way around that uncertainty is—the opposite of uncertainty—vision.³⁷

4.34 Mr Ipsen outlined for the committee the plan that his organisation was working on for the Latrobe Valley community:

We have worked on a plan. We sat down and figured out what the elements were that were needed for transition. They include new industries. On those new industries, we have built further new industries. We are looking at tackling the renewable energy target for Victoria. We are going to ask the state government for 10 per cent of the renewable energy target. We are going to ask them for \$10 million to build a solar panel factory. We want to produce 770,000 solar panels in the valley. We want them Australian made. We want them made in the valley. We want to build transition panels for a transition. We want to transition the community. It takes 50,000 houses to produce 200 megawatts, which is one Hazelwood unit. We cannot do eight Hazelwood units, but we reckon we can do one. We reckon, if we get the union and the green movement behind us, we can build our virtual power station. If we have our research, our incubators and the usual sort of 'catch the workers and retrain them', we reckon we can have a go. That is pretty much what the plan is.³⁸

4.35 The committee was informed by Repower Port Augusta that an almost identical scenario has played out following the closure of the Alinta-owned power stations in Port Augusta in May 2016:

The closure of the Port Augusta power station was announced with no plan to support the community to transition. Six months on from the closure the community is still to receive significant support from Federal or State Governments.

Since 2011, members of the Port Augusta community have pushed for solar thermal plants with storage to be built in the region creating new jobs and delivering on-demand clean power. This is a plan that should have been in place before coal closure was announced.

36 ENGIE Australia, 'Hazelwood to close in March 2017', *Media release*, 3 November 2016.

37 *Proof Committee Hansard*, 17 November 2016, p. 29.

38 *Proof Committee Hansard*, 17 November 2016, p. 29.

The experience of the Port Augusta closure emphasises the need for a national plan for the phase out of fossil fuels that is accompanied with serious transition packages for local communities and workers.³⁹

4.36 The ETU also referred to transitions proposals in the UK, which would see workers move to the renewable energy industry. The '1 Million Climate Jobs' report was compiled by the UK's Trade Union Group against Climate Change and the group subsequently lobbied the government to hire a million people to do new climate jobs via an integrated National Climate Service:

Whilst the report is much broader than a transition plan for workers, a critical component is that under the plan anyone who loses a job in an old high carbon sector like mining, oil, power stations or car sales must be guaranteed a permanent job in the National Climate Service at the same rate of pay. UK Labour Leader Jeremy Corbyn has endorsed the plan and committed to it if elected.⁴⁰

39 *Submission 24*, pp. 1–2.

40 *Submission 2*, pp. 7–8.