

LATROBE CITY COUNCIL SUBMISSION

To The Senate's Environment And Communications References Committee Inquiry Into The Retirement Of Coal-Fired Power Stations - 5 December 2016

Latrobe City Council expresses its thanks to the Australian Senate's Environment and Communications References Committee for the invitation to make this submission.

Latrobe City is Victoria's regional centre in Eastern Victoria with a strong work ethic and history of innovation, especially around engineering, mining and power production. Less than two hours' drive east of Melbourne, Latrobe City is home to approximately 74,000 people, the Gippsland regional population exceeds 250,000 people.

With a Gross Regional Product (GRP) of approximately \$4.1 billion, Latrobe City makes more than a significant contribution to the Victorian economy. Latrobe City is also home to the state's electricity generation industry, contributing in excess of 90 per cent of Victoria's energy requirements. Electricity generation dominates the economic profile of Latrobe City, accounting for around 21% of Latrobe City Gross Regional Product (GRP).

In response to the questions contained in the request for submissions we advise the following:

(a) the experience of closures of electricity generators and other large industrial assets on workers and communities, both in Australia and overseas;

Historically, the State Electricity Commission (SEC) has closed five power stations in the Latrobe Valley. These were Yallourn 'A' and 'B' power stations in 1968 and 1969 respectively, Yallourn 'C' and 'D' power stations in 1984 and 1985 respectively, and Yallourn 'E' power station in 1991.

Closing Yallourn A and B power stations during a period of growing demand for electricity in 1960s Victoria could only occur with the planning, construction and commissioning of the then new Hazelwood power station.

Closing Yallourn C, D, and E power stations was similarly enabled by the planning, financing, construction and commissioning of Yallourn W stage two and Loy Yang A power stations.

Closing these power stations was but one point in a very long process of prior actions to guarantee future stability and security of electricity supply to the state. That could happen because of the attention to financing

and construction, union consultations, negotiations and agreements around staffing, redeployment, training and work reorganization within the SEC.

When each of the old Yallourn power stations was turned off, every kilowatt hour of output had been replaced by plant built elsewhere. Every job was secured and relocated in another section of the SEC's Latrobe Valley operation without disruption to power supply, or eliminating existing jobs and employment opportunities. There were minimal adverse impacts for our region's economy and community.

In short, they got it right. In the late 1980s and early 1990s, the SEC led Australia's electricity supply industries on sustainable transition. In 1992, the SEC published its comprehensive plan to cut greenhouse gas emissions by 20 percent by the year 2005 and had already started implementation.

The SEC's transition plan included robust demand management, energy efficiency, conservation and community education, renewables, low emission supercritical base load and new gas fired plants, and extensive bio-sequestration from forestry plantations. The plan was underpinned by investment in energy technology research and development, local procurement policies, job creation, and skills retention.

Integrated drying, gasification and combined cycle (IDGCC) technology was being developed by the SEC's Herman Research Laboratories and solid oxide fuel cells were under development in the Latrobe Valley's Ceramic Fuel Cells research centre. A Japanese consortium had finished researching carbon pitch and carbon fibre production from Latrobe Valley brown coal, finding it feasible.

In 1992, the Latrobe Valley had a plan and good leadership and had begun transitioning the electricity assets, supported and complemented by the Latrobe Regional Commission. The Commission was a legislatively based, institutional arrangement established by the Victorian government to diversify the Latrobe Valley's economy with the participation of local government, businesses, community representatives and union leaders.

Sir John Monash, the SEC's first and most famous chairman, used to say - 'any plan is better than no plan'¹. By 1992, Victoria and the Latrobe Valley had a good plan and was leading the transition of Australia's electricity supply industries.

In 1993 however, the Latrobe Valley, Victoria and Australia went from having a plan to having no plan. The government decommissioned the SEC before selling its assets and deregulating the industry

The structural adjustment was difficult following the privatisation of the electricity sector and the region experienced significant social and economic impacts. Latrobe City believes it is critical that lessons have been learnt and governments will now have a co-ordinated and comprehensive approach to supporting the region.

¹ Serle, Geoffrey, John Monash: A biography, MUP, 1985,

Privatisation, deregulation and National Competition Policy have defined Australia's national energy reform agenda for two decades. This agenda has developed few initiatives to protect vulnerable communities like Latrobe City from a disproportionate burden of impact.

In the 1990s, the government promised its market based solutions would 'make the Valley great' by incentivising investment in new power stations and new industries that would diversify the regional economy, creating new jobs. It didn't happen.

In 2004, the Productivity Commission was tasked by the Federal government to review national competition policy. The Commission's draft report depicted the Latrobe Valley as being 'successfully restructured'. Its final report described our region as being 'the recipient of considerable adjustment assistance from the Australian and Victorian governments' resulting in strong economic recovery and employment growth".

This was incorrect. The recovery was inconsistent and unsustainable.

Our community remains challenged with high unemployment and social disadvantage. Today, Morwell's official unemployment rate is 17.9 percent² Morwell is ranked 143 on the Socio-Economic Indexes for Areas (SEIFA) Australian index of relative socio-economic disadvantage with a score of 880 placing it in the lowest decile. Moe is only marginally better ranked at 246, a SEIFA score of 904 and in the lowest decile.

The downstream impacts of privatisation were significant and included negative social impacts such as poor burden of disease outcomes, mental health impacts and an increase in the rate of suicide. The post privatisation era saw long periods of poor investment in community infrastructure and planning. These impacts are still fresh in the minds of many in our community as they face the reality of the closure of Hazelwood.

Following the announcement of the closure of Hazelwood there has been significant levels of anxiety experienced by the Latrobe Valley community. Many of the workers have spent their entire career at the power station and are concerned about the limited employment opportunities locally and the adaptability of their skills when seeking new employment. The community is also concerned about the flow-on effects of the closure, particularly given the existing high level of unemployment and social disadvantage. Low skilled workers and low income households will be disproportionately affected.

(b) the role that alternative mechanisms can play in alleviating and minimising the economic, social and community costs of large electricity generation and other industrial asset closures, drawing on experiences in Australia and overseas;

New technologies including, but not limited to, Carbon Capture and Storage (CCS) could have a significant impact on the future of coal-fired power generation and must be considered during policy development.

² Small Area Labour Markets Australia, June Quarter 2016

The Intergovernmental Panel on Climate Change, International Energy Agency and other bodies, are confident that CCS is a safe and effective technology that is being successfully applied now at a number of sites. But like other clean energy technologies, the cost of CCS needs to be brought down through innovation, more research and wider deployment. This will require a high level of national and international research collaboration and sustained government and public support.

The Latrobe Valley has a history of innovation and research and development. It is well-placed in terms of skillset, logistics, land and infrastructure for energy distribution to support the creation and location of investigative and explorative technologies. Latrobe City Council advocates for the notion that current power stations should be supported financially and ideologically to continue to explore ways to reduce emissions.

Council has collaborated with the community and industry to develop a Transition Plan, *A Strength Led Transition* which identifies a number of projects to support economic growth, education, liveability, wellness and community connectedness. Council is deeply committed to the community and is taking the lead to deliver these initiatives identified by the community.

Latrobe City proposes the establishment of a state, federal and local government committee based in Latrobe City to oversee the implementation of its Transition Plan to ensure economic transition and diversification of impacted municipalities as well as a commitment to a long-term investment effort, to ensure workers are not left behind.

Council also strongly encourages the decentralisation of government agencies to our region to create employment. This strategy has been successfully implemented in Geelong following the decline in the automotive industry.

(c) policy mechanisms to encourage retirement of coal-fired power stations from the National Electricity Market, having regard to:

- (i) the 'Paris Agreement' to keep global warming below 2 degrees Celsius, and ideally below 1.5 degrees Celsius,**
- (ii) the state and expected life span of Australia's coal-fired power plants**
- (iii) the increasing amount of electricity generated by renewable energy and likely future electricity demand,**
- (iv) maintenance of electricity supply, affordability and security, and**
- (v) any other relevant matters;**

The Australian community and industry depend on a secure and affordable electricity supply. For Australian businesses to be competitive in national and global environments affordable electricity is critical and provides a considerable economic advantage. Due to the poor reliability of renewable energy, industry needs access to reliable energy that can only be produced by fossil energy, nuclear or some hydro power.

The recent storms in South Australia demonstrated that energy security is a major risk to our economic certainty. The Australian Energy Market Operator (AEMO), in its November 2016 Insights publication, considered the effect of Hazelwood power station's closure on the National Electricity Market (NEM). This report concludes that following Hazelwood's closure "the NEM will continue to operate reliably ... however the supply/demand balance will be tighter during times of peak demand."

Another example of the increasing risk in energy security is the recent critical loss of power to Alcoa's Portland smelter³. This scenario again puts at risk Victoria's reputation as a manufacturing leader and accentuates the need for base load security, which cannot be granted from renewables. Moreover, when Hazelwood withdraws from the National Energy Market households and small businesses are expected to face reported⁴ electricity price hikes of 6.5-13.4 per cent. This could have devastating impacts on our already vulnerable community and small businesses who are battling to cope with flow on effects from the closure of Hazelwood. We ask: if one power station closing makes the NEM "tighter" what effect would the closure of all coal-fired power stations have on the security of national energy?

Latrobe City Council is not aware of an NEM policy that encourages retirement of coal-fired power stations and we believe such a policy is not required. In fact, we advocate for the continued operation of coal-fired power stations in the Latrobe Valley, which will guarantee energy security. We believe, a greater focus should be placed on supporting efficiency and technologies that reduce carbon emissions.

Are Federal and State governments focused on tackling CO2 emission problems? Or are they merely finding creative ways to deprive an already challenged community from productively using one of its greatest natural assets – brown coal? The government's stance is confusing. After all, Australia is still a major coal exporter and the aim should be to reduce carbon dioxide, not coal use.

(d) policy mechanisms to give effect to a just transition for affected workers and communities likely impacted by generator closures, as agreed in the 'Paris Agreement', including:

(i) mechanisms to ensure minimal community and individual impact from closures, and

(ii) mechanisms to attract new investment and jobs in affected regions and communities;

The Latrobe Valley community will require significant support from all levels of government to diversify the economy, create jobs and avoid significant social crisis. We need practical government programs and initiatives, for example, the recently announced Economic Growth Zone by the Victorian Government.

Significant resources should be allocated to research and development for alternative uses of coal. 16% of the world's brown coal reserves are found in the Latrobe Valley, the coal is low in impurities by world

³ Potter, B, 2016. *Alcoa's Portland smelter faces uncertainty after blackout*. Australian Financial Review, 2 December 2016.

⁴ (Bell, F, 2016. *Hazelwood power station closure: Electricity bills could rise 8pc, Victorian Government modelling shows*. News.com.au, 2 November 2016.)

standards and is a valuable resource. The Gippsland Carbon Transition Committee is currently exploring opportunities for fertiliser, hydrogen production and the potential for geo thermal power generation. These initiatives should be further supported through public, private partnership investment until they realise their potential.

Education should be a priority in developing a response to transition-affected communities. The investment in education must start with greater investment in the early years of children. Enhanced support is required to ensure adequate literacy outcomes as early as possible to change long-term employment and disadvantage outcomes. Appropriate support must be given to the region to provide focused educational opportunities and stem systemic disadvantage and multi generation unemployment so the community doesn't bear the brunt.

What consideration will be given to the significant loss of Council revenue from rates in lieu payments from power stations? Council will lose \$1.9M with only 5 months' notice of the closure of Hazelwood. Council submits that there should be trailing rates in lieu payable for a further period of at least 5 years following the closure.

(e) the appropriate role for the Federal Government in respect of the above; and

The Federal Government has an important role to play in setting policy parameters and Latrobe City Council must take a lead in this process. The region is reliant on federal funding to attract investment and growth as well as support for infrastructure and provision of a balanced energy policy that encourages the continued use of a natural asset in Latrobe Valley – brown coal – with the further investment into reduction of carbon emissions.

The challenge today for Council is that the full impacts of a power station closure are not yet known. Council believes that the Federal Government must ensure ongoing sustainable opportunities for employment for transitioning communities. If 750 direct jobs, 550 jobs resulting from the industrial effect and a further 400 jobs resulting from the consumption are to leave the community then an equivalent number of sustainable jobs must be returned. (Figures are based on Remplan modelling)

Latrobe City Council insists Federal and State Governments acknowledge that the Latrobe Valley, as defined by the municipal boundary of Latrobe City Council, is the epicentre for transition impacts. Not Wellington, Baw Baw, East or South Gippsland Shires but, rather, the region defined mostly within Latrobe City Council's borders.

Sally Weller observed⁵ 'the highly specialised economy of the Latrobe Valley faces the largest immediate

⁵ Weller, S., Sheehan, P and Tomaney, J. (2011) *The Regional Effects of Pricing Carbon Emissions: An Adjustment Strategy for the Latrobe Valley*

adjustment pressure ...[this is] exacerbated by the interaction of low incomes and comparatively inexpensive housing [that] suggest the Valley's more vulnerable residents are unlikely to be in a position to relocate out of the area'.

Whilst our council is supportive of regional priorities for much needed public investment, they should not be badged as 'transition assistance' nor be at the expense of investment for jobs, growth and economic security for the Latrobe Valley.

Council urges all levels of government to ensure a meaningful partnership with Latrobe City Council and its community, including Council in all discussions, policy and program planning and design with regards to electricity industry transition.

(f) any other relevant matters.

Brown Coal in Latrobe Valley

Latrobe City Council and its predecessors have had a long association with open cut brown coal mining and there is still an abundance of brown coal beneath the Latrobe Valley. This brown coal has been utilised for the provision of affordable electricity for the majority of the residents in Victoria via three large coal mines at Traralgon (AGL Loy Yang), Morwell (Hazelwood) and Newborough (Yallourn).

The Latrobe Valley's brown coal is a natural resource asset of national significance and must continue to be utilised to the nation's economic advantage. Latrobe Valley is, and always has been, the state's powerhouse, and with careful planning and a community-led transition can continue to be.

Long-term liveability and mine rehabilitation/remediation

Latrobe City Council has a strong commitment to the long-term liveability of the towns in the Latrobe Valley, and the need to consider liveability when planning, remediating and designing existing and future coal mines within Latrobe City.

Whilst Latrobe City Council will continue to advocate for the ongoing use of its natural assets, and for the retention of existing power stations, this must be done with consideration to the health and wellbeing of the communities who live nearest to the mines. The liveability of Morwell, Newborough and Traralgon must be a priority when considering remediation plans in the Latrobe Valley. This includes the consideration of:

- Stabilisation of batters and mine walls
- Remediation generally
- Noise and dust reduction; and
- Proximity to existing settlements and residential areas

Morwell is immediately adjacent to both the Hazelwood Open Cut and the Yallourn Open Cut and Council is concerned about the effect these activities are taking on the town itself. Council must be involved in the planning for the short, medium and long-term remediation of the existing mines in order for it to best manage the growth of the municipality.

Land use policy for coal buffers and overlays should also be reviewed as there is currently no clear policy for uses within these areas. For example, there has been strong interest for intensive agriculture investment within these buffers; however the lack of policy direction has discouraged investment decisions, impacting the ability to attract jobs to the region.

In conclusion, Council refutes the need for the power stations to close; the focus should be placed on encouraging power stations to reduce emissions. To suggest that all coal fired power station should close by 2020 is absurd.

Our community has always and will continue to advocate for the continued use of its natural asset – brown coal. Can the Government clarify its stance on this? Are we a coal-exporting nation? Do we want to look into the future and sustainable use of brown coal in the Latrobe Valley?

The closure of the Hazelwood Power station threatens the energy security of the state. Creating a long-term, considered plan to transition not just the Latrobe Valley, but Victoria, towards a future of sustainable and environmentally-responsible coal use is achievable, and can be driven with involvement from the Latrobe City community.

Council is committed to modelling an inclusive, collaborative approach to expedite the planning advocacy, development and support of the economic diversification of the Latrobe Valley. Council will work with the community, for the community and support and commitment for all levels of government is critical to the future of our great region.