



EnergyAustralia

EnergyAustralia Holdings Limited
ABN 57 101 876 135

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

16 November 2016

Ms Ann Palmer
Acting Committee Secretary
Senate Standing Committees on Environment and Communications
PO Box 6100
Parliament House
Canberra ACT 2600

Submitted via email to ec.sen@aph.gov.au

Dear Ms Palmer

EnergyAustralia submission to Standing Committee on Environment and Communications References Committee Inquiry into the retirement of coal fired power stations

EnergyAustralia welcomes the opportunity to make a submission to the Standing Committee on Environment and Communications References Committee's Inquiry into the retirement of coal fired power stations.

EnergyAustralia is one of Australia's largest energy companies, providing gas and electricity to about 2.5 million household and business accounts across the National Electricity Market (NEM) with a diverse generation portfolio of coal, gas and renewable assets; many in regional areas.

At EnergyAustralia, we think and act based on what is in our customers interests first. Every decision we make is assessed against the very objective of Australia's energy markets – to serve the long term interests of consumers.

The Clean Energy Transition

EnergyAustralia is committed to transitioning Australia's energy sector to a lower emissions future, without compromising the delivery of reliable and affordable energy to customers. This challenge is referred to as "the energy policy trilemma" and there are choices and a balance to be made between price, reliability and emissions objectives. For example, electricity from existing coal-fired power is cheaper than renewables today, but has significantly more carbon emissions.

From a customer viewpoint, the clean energy transition must reduce emissions but do so in a manner that delivers reliable and affordable energy. Generally, well planned market changes are less expensive than sudden shocks and in this light the transition from coal to lower emissions energy needs to be completed in an orderly way. We welcome the opportunity for government, industry and the community to manage the transition to cleaner energy together.

The NEM has served consumers well since formation in 1998 and remains an important factor in Australia's economic competitiveness. However, with the commitments made under the Paris Agreement, the NEM and emissions reduction policies will need to work together if we are to deliver reliable and lower emissions electricity at an affordable price point.

We believe the most affordable outcomes will come from market based mechanisms where private investors are willing to fund Australia's electricity infrastructure. However, to attract investment capital into the future, Australia needs to overcome three problems that have sapped investment confidence in the sector:

- Defining how carbon emissions will be reduced in the electricity sector;
- Improving market information around retirements and other significant drivers of market price outcomes; and
- Delivering a stable national policy after a decade of frequent energy policy changes.

Driving investment confidence is important given the scale of the clean energy transformation. Today we remain an electricity system dominated by fossil fuels, predominantly coal. If the NEM were being rebuilt today as a 100% renewable system, we would have to build approximately 75,000MW of renewables – the equivalent of about 25,000 wind turbines. If we did it all with wind over 30 years we would be looking at building 2 turbines every day for 30 years. At current prices, this would equate to \$150 billion of investment.

The more challenging task for this transition is what to do when the wind is not blowing and/or the sun isn't shining. While existing storage and demand side management can go some way to providing this balancing capacity, larger scale dispatchable generation will be needed– that means coal and gas will be required in some form for some time to come. After which additional investment costs will need to be incurred, on top of the renewable energy costs, to invest in storage.

The investment challenge is significant just for generation and storage, and will be far greater once the cost of transmission and other network upgrades are also factored in.

Inefficient or overly expensive investments could make the cost of Australian electricity excessively high for households and uncompetitive for trade exposed businesses, which is why we believe we must design the right policy frameworks to deliver the best outcomes for our customers.

EnergyAustralia believes that the best policy framework is one that is national, credible and integrates carbon and energy policy. The market mechanism of the NEM has been effective in driving reliability and affordability for customers and we believe augmentation of the NEM to integrate emissions reduction policies is the right pathway to manage the clean energy transition.

Supporting Local Communities

Any integration of energy and climate policy should account for the social impacts that result from the policy. This particularly applies to communities in regional areas in which electricity generators will close.

EnergyAustralia has experienced this first hand with the closure of the black coal fired Wallerawang Power Station, in Lithgow NSW, in 2014. We removed each of the two units from service sequentially, and took the final closure decision many months after validating there was no future role in the market.

Once it was clear it was no longer economic to operate, we engaged in a consultative process with our employees and the community ahead of the closure announcement. This process shared the challenges we saw for the future of Wallerawang and helped stakeholders to understand the choice we faced and ultimately took.

Through this experience, EnergyAustralia confirmed the value of good communication. Further, we have observations to make about the benefit of targeted assistance to regional areas.

Firstly, we note that power station sites have excellent infrastructure – good roads, rail, water, electricity transmission and other assets. These sites are difficult to replicate and contain many attractive features for manufacturers and other businesses. EnergyAustralia has conducted a process seeking out repurposing alternatives at our Wallerawang site and believes there may be a useful role for government in running similar processes. In our view, attracting new industry to regional areas is the most attractive potential outcome from closures.

Secondly, if repurposing options are not available, power station closures will create social challenges in regional areas. Workers face the need to upgrade their skills and re-train. These activities help improve their chances of gaining employment elsewhere. Governments have a role to lead this activity, which should be developed with local educational institutions and align with skills needed in the region to maximise the chances of workers being able to continue to live and work locally.

For further information on any issues raised in this submission please contact Lee Evans, Policy & Advocacy Lead, on [REDACTED]

Regards

Mark Collette
Energy Executive