



Australian Government

Report of the Liddell Taskforce: Australian Government statement and response

15 September 2020

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Contents

Contents	3
Accompanying Statement	4
Context	4
Liddell Taskforce	4
Approach	4
Ensuring our energy security into the future	5
Government Response to the Liddell Taskforce’s Recommendations	6

Accompanying Statement

Context

The Government is focused on delivering affordable, reliable and secure electricity for Australian households and businesses, supporting jobs, productivity and economic growth. Coal-fired power stations exiting the National Electricity Market (NEM) before sufficient replacement generation capacity comes on line presents a threat to these goals and to our energy security.

Following the exit of the Hazelwood power station, wholesale prices increased by up to 85 per cent in Victoria harming businesses and increasing cost of living pressures on Australian families. Since then, the market has increasingly relied on high-cost emergency reserves to make sure there is enough supply available. Despite those high prices, we did not see corresponding investment in firm generation capacity.

Over the last twelve months we have seen price reductions in the National Electricity Market. A shock, such as a scenario where Liddell is not replaced, is one of the key risks to energy-led post-COVID recovery. In advance of Liddell's planned closure in 2023 we still have not yet seen the market commit to bring on sufficient like-for-like replacement capacity, with only 100MW of dispatchable capacity committed in NSW in the five years since the closure was first announced. While some projects in NSW have been announced, these are not committed, not guaranteed to eventuate, and now face new challenges from COVID-19's impacts on the global economy.

Liddell Taskforce

The Commonwealth created the Liddell Taskforce in 2019. The Taskforce investigated the impact of Liddell's planned closure on price, reliability and security in NSW. It assessed impacts on the broader NEM, dependent industries and the local region. We thank the NSW Government for working with the Commonwealth on the Liddell Taskforce, and look forward to continuing to work together on shared issues. We also thank AGL, owner of Liddell, and Tomago Aluminium Smelter for their contributions to the Taskforce's work.

Approach

The risks that have played out when Hazelwood closed – significant price increases and limited investment in new firm capacity – remain unsolved for Liddell. This is clearly borne out in the Taskforce's findings. The work of the Taskforce shows that without the large amount of investment in new dispatchable capacity needed we risk prices rising by around 30 per cent over two years, or \$20 per MWh¹, to \$80 in 2024. This would also lead to increased risk of reliability issues, with AEMO and Transgrid raising concerns about the escalated risk of supply shortfalls.² This would have unacceptable consequences for consumers and dependent industries in NSW.

The Government is focused on the following objectives to ensure our energy security: delivering the lowest possible electricity price outcomes; maintaining reliability and system security; and meeting the needs of commercial and industrial consumers.

¹ Report, Finding 3

² Report, page 12

The Government will not risk the affordability, reliability and security of the NSW energy system on the hope sufficient investment in like-for-like capacity could eventuate. Our response centres around three pillars:

1. Setting a dispatchable investment target: for the private sector to commit investment, by the end of April 2021, to deliver 1000 MW of dispatchable capacity to come online in time for the summer of 2023-24. This target is based on modelling done for the Liddell Taskforce on replacement capacity and could be met through already announced - but not yet committed - projects;
2. Continued support for new investment: through driving a gas-fired recovery and work already underway to support investment in new dispatchable generation through the Grid Reliability Fund, the Underwriting New Generation Investments program and underwriting priority transmission infrastructure; and
3. Making sure the target is met: if the private sector does not commit to sufficient capacity to meet the target by April 2021, the Government will intervene to ensure this new replacement capacity is built. The Government has a preference not to fund a Liddell extension but would welcome the extension of Liddell by the private sector.

We want to see industry step up and deliver the new dispatchable capacity required to ensure a reliable and affordable energy system. This is why the Government has an unwavering focus on putting customers first and monitoring competition in the market through the Australian Competition and Consumer Commission's ongoing electricity market inquiry.

The Government is providing certainty by setting a clear target and specifying the conditions under which it will intervene in the market. However, if industry steps up to deliver this capacity in time, then the Government will step back.

This approach aligns with the advice of the Liddell Taskforce, encouraging the private sector to deliver the capacity required but providing certainty to the market and consumers that the necessary investments will be made.

The Government will continue to facilitate investment, crack down on uncompetitive behaviour in the retail, wholesale and contract markets, and give the private sector the opportunity to step up to deliver the capacity needed - but we will be ready with a solution if it does not.

Ensuring our energy security into the future

A secure, reliable and affordable electricity system is essential for all Australians, businesses and industry, particularly our energy-intensive industries, including Tomago Aluminium Smelter, which underpin the sustainability of jobs, local communities and livelihoods we recover from the challenge of COVID-19.

Aluminium smelters, like Tomago, play an important role in energy system, providing grid services and emergency reserves. The Government will pursue necessary changes to the national energy laws for Tomago and other industry participants to be appropriately compensated for the grid services they provide.

To address the longer-term challenge, the Government has directed the Department of Industry, Science, Energy and Resources to strengthen its focus on modelling and monitoring the impacts of retiring major power stations on security, reliability and affordability of electricity supply.

Government Response to the Liddell Taskforce’s Recommendations

Recommendation	Government Response
<p>1. If governments consider more needs to be done to ensure grid reliability, the Taskforce recommends they continue to work through the COAG Energy Council to develop an enduring policy framework to address reliability impacts of coal closures.</p>	<p>The Government supports this recommendation.</p> <p>The Minister for Energy and Emissions Reduction will continue to work with State and Territory colleagues on NEM-wide reforms to ensure the reliability of the grid.</p> <p>The Minister and his State and Territory colleagues have already implemented the Retailer Reliability Obligation, are progressing further interim measures to support reliability and security, and has sought advice on a post-2025 market design for a long-term, fit-for-purpose market framework to support reliability.</p> <p>The Government notes this work, commenced under the auspices of the former COAG Energy Council, will continue under the new National Cabinet structure.</p>
<p>2. Governments should provide as much certainty as possible and address other non-market barriers to enable replacement projects to be delivered on time. This could include encouraging regulators to work proactively with proponents of new investments</p>	<p>The Government supports this recommendation.</p> <p>The Government’s approach sets clear expectations for the private sector. The Government is giving the market until April 2021 to commit to final investment decisions for the new dispatchable capacity the NSW market needs. We are providing certainty that, if the market does not respond to deliver the 1000MW of capacity needed to deliver affordability and reliability, the Government will step in.</p> <p>The Department of Industry, Science, Energy and Resources will work proactively with proponents of priority new capacity and regulators to identify and overcome barriers to investment. The Government has already identified 15 major projects, including Marinus Link, for which we will fast track regulatory processes. Providing certainty to the market is essential. The Government understands the unnecessary barriers regulation can create and acknowledges the importance of regulators working constructively with proponents.</p>

Recommendation	Government Response
<p>3. Governments could focus on developing demand-side measures as one part of the solution, through promoting uptake of demand response, distributed energy resources integration, and energy efficiency as a low-cost, short-term response to Liddell’s exit, and to facilitate the longer- term transition.</p>	<p>The Government supports this recommendation.</p> <p>The Government is working on current demand side measures and is looking at ways to build on those programs and support uptake of the Wholesale Demand Response Mechanism. The Government is continuing to deliver energy efficiency measures, including through improving the efficiency of commercial and residential buildings, and on energy standards and labelling for equipment and appliances. The Government is working with the states and territories to deliver a package of measures to support the integration of distributed energy resources into the grid.</p> <p>Demand-side measures can contribute to bridging the capacity gap as Liddell exits, but by themselves will not be sufficient. The delivery of sufficient dispatchable generation capacity remains the primary means of keeping prices low and maintaining reliability.</p>
<p>4. If considering support for like-for-like replacement options, governments should evaluate the most appropriate projects, taking into account future system needs based on AEMO advice, costs and timing. If direct support is warranted, government could underwrite or procure new capacity through existing programs or through offtake agreements but should consider the effect on the business case for other investments.</p>	<p>The Government supports this recommendation.</p> <p>The Government is supporting the private sector to deliver new dispatchable generation through a range of existing mechanisms. This includes the Underwriting New Generation Investments (UNGI) program and the Grid Reliability Fund (GRF). AEMO advice is an essential input in the Government’s considerations, including for the Department of Industry, Science, Energy and Resources’ consideration of projects under the UNGI program. These Government support mechanisms have been designed to encourage industry to step up to deliver needed new reliable capacity.</p> <p>In addition, our commitment to Snowy 2.0 will reduce prices and support the system in the longer term. AEMO’s advice to the Taskforce demonstrates the value of Snowy 2.0 and associated transmission upgrades to maintaining the stability of the grid and delivering on future system needs.</p> <p>Building on this work, the Government’s support for a gas-fired recovery will improve the business-case for investment in gas-fired generation. Gas and electricity are inextricably linked, with gas increasingly essential to provide the reliability and dispatchability needed to balance intermittent renewables. This is why the Government is developing a strategy to underpin a gas-fired recovery following the COVID crisis.</p>

Recommendation	Government Response
<p>5. If governments see fit to pursue extending Liddell, they could de-risk the investment in upgrades by underwriting returns or limiting liabilities, and should seek advice from an independent expert as soon as possible regarding the technical and commercial feasibility of an extension before making any commitments.</p> <p>This would include a thorough engineering and safety audit of the plant, ash dam and other infrastructure.</p> <p>Assessment would also be needed of associated costs, environmental and other regulatory issues to be addressed, additional outages required and risks of those outages for the market.</p>	<p>The Government notes this recommendation.</p> <p>The Government is not inclined to provide financial assistance for an extension of all or part of Liddell.</p> <p>The Government would welcome an extension of Liddell by the private sector as one approach to maintain the necessary capacity to avoid price increases like those we saw after the closure of Hazelwood. Such an extension would contribute towards the Government’s dispatchable capacity target.</p>
<p>6. If governments are willing to support Tomago’s continued operations they could support the renegotiation of Tomago’s electricity hedge contract and explore opportunities for Tomago to be compensated for demand response to avoid load shedding of other customers.</p>	<p>The Government supports this recommendation.</p> <p>The Government’s approach to ensuring sufficient investment in capacity to replace Liddell will keep electricity prices low and maintain reliability and security. This will benefit large industrial customers like Tomago.</p> <p>In addition, the Government will continue to work with Tomago and AGL to ensure Tomago can receive the best electricity price possible. We will pursue changes to the national energy laws for Tomago and other industry participants to be compensated for the grid services they provide. This includes Tomago’s role in the proposed out-of-market capacity reserve and the new Wholesale Demand Response Mechanism.</p>

Recommendation

7. Governments should continue to work closely together on a response to Liddell’s planned closure, and in the longer term options to address Tomago’s viability and manage future coal closures, based on updated projections from the market operator.

Government Response

The Government **supports** this recommendation.

Liddell continues to play an extremely important role in our energy system, supporting lower prices, reliability and security.

Tomago’s business is very important to the economy and our manufacturing sector, employing 1,804 Full Time Equivalent employees and producing 25 per cent of Australia’s aluminium. It is essential our manufacturing sector and other consumers have access to an affordable, reliable energy supply.

The Government has established a steering committee with the NSW Government through the NSW-Commonwealth Energy MoU signed on 31 January 2020, which will ensure coordinated action on responding to Liddell.

Efforts underway by both governments to support new dispatchable capacity will support the private sector to step up and deliver on the dispatchable capacity target.

To address the longer-term challenge, the Government has directed the Department of Industry, Science, Energy and Resources to strengthen its focus on modelling and monitoring the impacts of retiring major power stations on security, reliability and affordability of electricity supply.

The Government will continue to work with Energy Ministers to deliver market reforms to better incentivise dispatchable capacity and manage future coal closures.