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Dr Alan Finkel AO
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Independent Review into the Future Security of the National Electricity Market

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Dear Dr Finkel

Thank you for the opportunity to make a submission to the Independent Review into the Future Security of the National Electricity Market (the Review).

The ACTU is the peak national union body in Australia, representing 46 affiliated unions and the interests of around 1.8 million workers and their families. Our members work in all sectors of the economy, including in emissions intensive industries, manufacturing as well as the renewable technologies sector. We therefore act as a voice for workers in industries facing the challenge of decarbonisation, for workers, whose future depends on the growth of new sectors such as renewable energy and energy efficiency, as well as for workers (e.g. those in construction) that are likely to be particularly affected by our changing climate and rising temperatures.

As part of the international community, the union movement has been actively engaged in the debate about how best to mitigate the dangers of global warming. Unions believe there is an environmental, economic and social imperative to act. Unless decisive action is taken to drive long-term change in the way we produce and use energy (alongside other areas such as managing our land), our pollution levels will continue to rise and our climate will continue to warm. In light of the global commitment under the Paris Agreement to limit temperature increases and reduce our greenhouse gas emissions, continuing with business as usual is not a viable option.

We believe that taking action to reduce emissions, improve energy efficiency, expand renewable energy capacity, and rapidly develop low carbon technologies and industries is essential for continued economic growth that is both sustainable and lays the foundations for future job creation.

Whilst the ACTU notes the scope of the Review, we propose to focus our submission on examining the social and economic impacts that Australia's transition to a clean energy economy will have on working people, their families and regional communities.

Australia's national interest will best be served if the negative social and economic impacts of this transition are minimised and the positive opportunities around job creation are seized. This can be achieved we believe through engaging in forward, long term planning to develop a national strategy to transition Australia to a clean energy economy. A national plan with clear, stable and bipartisan policies that provides certainty to industry, investors, businesses, working people in emissions intensive industries and regional communities is the best option in order to achieve the trilemma objectives, as articulated below.

The current policy paralysis at a national level is contributing to significant investor uncertainty, with decisions around building new generation being delayed. The ramifications of this policy paralysis will continue to be felt for many businesses and consumers in years to come, given that the investment signals that are needed in order to build new generation are not being received. The lead time for building new generation is also relevant. For example, it can take anywhere between 3-5 years to plan, finance and build new large scale generation. Appropriate signals and planning are needed to ensure a secure, low emissions supply of electricity, which will provide the foundations for future economic growth and job creation.

Electricity blackouts in South Australia also provide a very real lived experience for many working people and their families of the failure of national policy to ensure a secure supply of electricity. The privatisation of a large proportion of Australia's electricity generation has arguably made this challenge even greater – but one that the Federal and State Governments, and all political parties will need to address if we are to modernise our electricity infrastructure and ensure that Australia maintains its comparative advantage in having as far as possible lower energy costs than our competitors. Electricity, particularly for energy intensive industries, represents an important cost input for business. Securing this supply at as low a cost as possible is thereby critical for supporting existing jobs and growing new jobs and industries.

The transition to a low emissions economy is underway

Whilst we note that the Review's term of reference and that the Preliminary Report focused specifically on the need to address the energy trilemma of delivering secure, reliable and affordable energy, whilst reducing Australia's emissions, we would urge the Review to also consider the social and economic impacts of this transition on working people and regional communities.

The real impacts of the shift to a clean energy economy are being felt across our regions, for example in the Latrobe Valley, Port Augusta and Anglesea. These communities, amongst many others, have all experienced first-hand the impact of unplanned closures of power stations on their local economies and labour markets.

As the Senate Inquiry's *Retirement of coal-fired power stations Interim report* notes, these closures were often accompanied by minimal planning at state or federal government levels. Further, support for the necessary job creation that the community and workers in these closing plants will need, is also not happening. New industries and jobs, alongside support for workers to enable a smooth transition into new employment is a key part of this policy equation.[1] The lack of coordination between local, state and federal governments in announcing their support packages following closure announcements by companies has also meant that resources are not being effectively allocated or maximized.

To this end, the ACTU released last November a policy discussion paper titled *'Sharing the challenges and opportunities of a clean energy economy: A Just Transition for coal-fired electricity sector workers and communities'*, attached for your reference.

In summary, this paper recommended the establishment of an Energy Transition Authority, charged with responsibility for developing a long term plan to transition Australia to a clean energy economy. Specifically, the Authority would be responsible for:

- overseeing a planned and orderly closure of Australia's coal-fired power stations, which ensures a Just Transition for workers and communities (as recognised in the Paris Climate Agreement);
- managing 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;
- developing a labour adjustment package to support workers obtain new decent and secure jobs. This should include not only funding for workers to access job assistance support, but also retraining, early retirement and travel and relocation assistance.

Finally, the authority would work across Federal Government departments and with State and Local Governments to develop specific plans to diversify coal-fired power generation regions industry base, support existing industries and help create new, secure jobs. In considering opportunities for targeted support, investment in clean energy innovation could be considered as this has significant potential to drive the creation of new, secure jobs in the renewable energy and energy efficiency sectors. This would create new jobs in research and design, manufacturing, construction, maintenance, servicing and operations for example, thereby providing high quality employment opportunities.

Significantly, the recommendations of the ACTU report were taken up by the *Senate Inquiry's Retirement of coal-fired power stations Interim report* – which we would recommend for the Review's consideration.

[1] The Senate Environment and Communications References Committee, Retirement of coal-fired power stations, Interim report, November 2016

Inadequacy of previous government responses to industry restructuring

We know that long-term planning is needed to prevent the kind of last-minute, reactive assistance that has been cobbled together for workers in the automotive, forestry and textiles industries in recent years.

History shows that industry and economic change have often been done poorly in Australia, with workers and communities suffering hardship, unemployment, and generations of economic and social depression. This is discussed in more detail in the ACTU's paper, but is evidenced by the longitudinal study of retrenched Mitsubishi workers following the closure of two South Australian plants in 2008. In this study, one third of workers were able to move to comparable full time employment, while a third left the labour force altogether and a third were either unemployed or under-employed. A repeat of such disastrous employment outcomes for workers employed in emissions intensive industries as a byproduct of climate policy, is unnecessary, unfair and can be avoided with appropriate planning and support.

We urge the Review to consider these issues. Whilst we appreciate the Review's terms of reference, we would respectfully suggest that there is an opportunity when considering *'how do we best meet the needs of vulnerable and hardship consumers'* to consider the social and economic impacts on vulnerable working people and regional communities, where coal-fired power stations are located. These people and communities are also consumers, who will be particularly impacted if they lose their jobs as a result of climate policy. This could also be discussed in the context of recognizing the need to manage and plan for the transition.

At the same time that the ACTU paper was launched, 750 Hazelwood workers were told that they will lose their jobs in March 2017. In a region that already has the highest unemployment rate in Victoria (8.2%), this was devastating news not only for the individual workers and their families, but also their community, in particular many small and medium sized businesses. When disposable incomes fall and unemployment rises, this has a flow on effect that is particularly magnified in small regional towns with a limited industry base and job opportunities. As the ACTU paper notes, in the case of coal-fired power stations – these are often closely located in areas with significant coal resources. For example:

- In Victoria, all four major brown coal power stations are located in the Latrobe Valley east of Melbourne;
- In NSW, the five black coal power stations are located in the Newcastle / Hunter Valley and Lithgow areas;
- The seven black coal power stations in Queensland are located to the west of Brisbane and in or around the Gladstone / Rockhampton area; and
- The four black coal power stations of Western Australia are located near Collie.

The question of ‘how’ we transition to a clean energy economy is therefore a very live question for the thousands of workers in this sector and their communities. We know that energy companies such as AGL have for example, already announced that they will close all existing coal-fired power stations by 2050 starting with the Liddell Power Station (NSW) in 2022, Bayswater Power Station (NSW) in 2035 and Loy Yang A (Victoria) in 2048. However AGL has noted that these are only guidelines and that the dates can be brought forward – thereby providing little certainty to workers and their communities. Further these announcements do not appear to be triggering the necessary work at a local, state and federal level to engage in workforce and industry planning that will support job creation in these towns. We urge the Review and all levels of government to begin this planning earlier rather than later, as this will help address the very real fear of the workers and communities around securing new employment following retrenchment.

Regulatory mechanisms

In considering mechanisms to support an orderly closure of coal-fired power stations that provides a Just Transition for working people and their communities, consideration could be given for example, to the introduction of appropriate timeframes to regulate an orderly closure of generators, having regard to emissions output and the social / economic impacts on particular regions. Other countries around the world have introduced such mechanisms. As a number of experts have noted, market policies that price emissions do not alone provide the necessary level of certainty around retiring generators. Additional regulation could also provide some certainty to working people and communities, whilst also signaling the need for other planning and policies to mitigate the negative social and economic impacts for workers in emissions intensive industries.

Security of our energy system also underpins many jobs in large industrial energy users

The security of our energy system will also impact other emissions intensive sectors and large industrial energy users such as food processing, steel, smelting, glass, paper, mining operators etc. The numbers of jobs and the workers that rely on these should also be part of any consideration when reforming the electricity market. This is related to the need for the Review to also consider the need to maintain international competitiveness, particularly for trade exposed industries.

In addition, the risks to electricity infrastructure due to climate change must also be considered. In the context of a changing climate, with increased weather variations, ensuring that any new infrastructure can withstand storms for example, is an important part of ‘climate proofing’ our economy.

National Electricity Objective (NEO)

Similarly in considering changes to the National Electricity Objective, we would argue that stable bipartisan climate policy that provides certainty for the necessary investment in new climate proof infrastructure should be a key consideration.

This involves consideration not just of infrastructure, but also around the need to protect our natural resources (e.g. water) and the possible increased demands on electricity that will arise with a warming climate (for example, ensuring that we can effectively manage peaks in demand).

In order to deliver upon our emissions commitments made under the Paris Agreement, the NEO will likely need to be changed. This could be achieved by requiring the NEO to consider the needs of future generations, for example:

> "to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of ***current and future*** consumers of electricity with respect to – price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system"

Role of gas

In the absence of significant investment in new renewable generation or retrofitting existing generators with carbon, capture and storage (CCS), gas will likely be needed in the short to medium term as intermediate and peaking power (particularly as more coal-fired power stations retire while more intermittent renewables enter the market).

With Australia exporting record amounts of gas overseas and domestic prices rising, consideration should be given to what is in Australia's national interest when regulating this market. That is, how can we best deliver a secure supply of low price gas for all energy users including consumers and large industrial users. Consideration could be given for example to reserving a proportion of Australia's gas for domestic use. All Australian's have a stake in the use of our natural resources and it is important that our taxation system adequately reflects this (e.g. through reforming the Petroleum Resources Rent Tax to ensure that large multinationals pay their fair share of tax). We urge the Review when considering this issue to consider how best to lower the cost pressures on manufacturers with a focus on protecting and growing jobs in this important sector.

Technology is transforming the electricity sector

New technologies are transforming the electricity sector, with the costs of renewable energy significantly reducing in recent years. A recent report from the Climate Council suggests that 'solar costs have dropped 58% in five years and are expected to continue to fall by a further 40-70% by 2040.'[2] Further industry analysis completed by Ai Group has suggested that the cost of building new coal-fired power stations is uneconomical.[3] According to Ai Group's analysis, the building of new coal-fired power stations does not make sense from a price, reliability or emissions perspective.

[2] Climate Council, State of Solar 2016: Globally and in Australia
[3] http://blog.aigroup.com.au/should-we-be-looking-at-new-coal-fired-power-stations/

Public investment would instead be better directed towards investing in research and development that focusses on effectively integrating renewable energy into the electricity grid. As the Review notes '[s]uch solutions include intelligent wind turbine controllers, batteries and synchronous condensers, all of which can contribute to system security'. Energy storage is an important part of this mix. Overseas, global investment in storage has been increasing, with Europe leading the way. Policies and investment will likely be needed to support further growth in Australia to help address intermittency problems of renewable generation. In the short to medium term however, gas is likely to be required in order to maintain energy security and provide reliable power.

The impact on future generations, in particular future workers of the decisions that we take now, should not be underestimated. We have an obligation to take action and implement polices now that will ensure Australia remains a competitive, low energy cost nation. These decisions will ensure that we have a diverse industry base into the future and enable the growth of good, secure jobs that this country has consistently been renowned for.

The current uncertainty in national policy and severe absence of national leadership, which all stakeholders agree is needed to drive the investment decisions that are needed to modernize our ageing infrastructure, and which are required under the Paris Agreement, does not benefit anyone.

For working people, the risks of increased pollution, rising power prices, lack of investment in new renewable and low emissions generation are very real questions. The way in which Australia manages this transition, particularly where some workers will be retrenched due to the closure of their plants, must also be considered. We urge the Review to consider both the costs and opportunities of this transition, and ensure these are shared equitably across society.

The ACTU would be keen to arrange a meeting to discuss some of these key issues in further detail.

Should you have any queries in relation to the submission, please contact Charlotte Newbold on (03) 9664 7347.

Yours sincerely

Ged Kearney
President

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