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Submission to Enhancement to the Reliability and Emergency Reserve Trader – Draft Rule Determination (ERC0237)

AGL Energy Limited (AGL) is one of Australia’s leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.6 million customers in New South Wales, Victoria, Queensland, Western Australia, and South Australia. In addition, we continue to be an aggregator and developer of Demand Response (DR) and Distributed Energy Resources (DERs).

We thank the Australian Energy Market Commission (**AEMC**) for the opportunity to comment on its Enhancement to the Reliability and Emergency Reserve Trader (RERT) Draft Determination (**Draft Report**).

AGL welcomes the preferred rule, set out in the Draft Report. We consider this position generally strikes a balance between providing the Australian Energy Market Operator (AEMO) with the tools and supplementary guidance with respect to the RERT mechanism, without compromising the existing RERT framework. In our view, the majority of ‘enhancements’ provide the market with the necessary transparency, clarity and direction required to ensure that the RERT is only activated when there is a genuine need to call on “the NEM’s safety net¹”. Importantly, the decision to solidify the linkage between the reliability standard and RERT procurement removes the risk of market distortions created by a centrally controlled ‘standard reserve’ market and should ultimately place downward pressure on RERT costs.

However, AGL wishes to draw the AEMC’s attention to three issues which remain of concern and, if not adequately addressed, could result in unintended consequences:

1. Standardised RERT Contracts

Under its rule change request, AEMO proposed to standardise its RERT contracts with providers, by largely fixing its standard contractual terms and conditions. While some variation was allowed in its request, AEMO

¹ AEMC Draft Rule Determination ‘Enhancement to the Reliability and Emergency Reserve Trader; page V



did not elaborate on what type of changes and change process would be offered to participants. AGL understands that the AEMC's Draft Report maintains discretion to introduce standard contracts with AEMO.

While we acknowledge that the National Electricity Rules (NER) does not specify any requirements with respect to the details of a RERT procurement contract, noting this is an operational process, AGL considers that standardisation will not alleviate the cited administrative concerns while also maintaining an appropriate contract risk/reward balance. Inevitably, standardisation would largely see the same risks, conditions, terms and rewards applied to all counterparties. However, each RERT participant will have their own operating model (i.e. a smelter vs. a data centre) and therefore place different weightings against each term and condition. Without the ability to negotiate, participants may decide to remove themselves from the RERT procurement process altogether or demand greater reward to offset the additional risk placed on them. Under both scenarios, RERT procurement costs would increase.

AGL therefore encourages the AEMC ensure that any effort to standardise contracts, maintains a fair and equitable balance between parties, including negotiation on key terms and conditions. Such guidance should be provided to the Reliability Panel in advance of its review of the RERT Guidelines, and AEMO's revision of its RERT procedure.

2. Out of Market Provisions

The Draft Rule introduces a blanket rule about whether capacity is 'on or off' market. It does this by imposing a 12 month 'out of market' provision and also through proposed definitions, including what will constitute a "demand response arrangement". While AGL understands this is intended to remove double dipping behaviours (i.e. participants providing the same capacity in both wholesale market and RERT at the same time), we consider the assumptions that underpin this simplistic policy approach are problematic.

Fundamentally, the approach assumes that there is a uniform response to market signals from Registered Participants where in fact – particularly with large curtailable loads versus small loads – the commercial incentives might be very different in the market. In our view, the Draft Rule does not take into account the wide variety of ways a demand response arrangement can be documented and implemented, and therefore the large number of considerations each Registered Participant takes into account when faced with particular market signals. AGL believes that if capacity is left out of the RERT, it is unreasonable to assume that AEMO could rely on commercial demand responses to adequately align with their operational use more broadly in the market, to address reliability concerns. Doing so could leave AEMO no choice but to issue directions or instructions, at an increased cost, to market participants, and in some instances such actions may not even be possible.

Ultimately, by imposing a catch-all mechanism, the likely effect will be to potentially remove large amounts of curtailable capacity from participating in the RERT.² As has been seen over the last two summers, access to large curtailable loads can be critical to maintaining system security and minimising market impacts during reliability events.

In addition, the 12 month gap requirement also:

² AGL currently has access to more than 1300MW of large customer curtailable load.



- increases the risk of a breach of the reliability standard and therefore activation of the RERT, by limiting a potential participant’s ability to provide market services over the ‘gap year’; and
- potentially exposes market participants to higher costs resulting from a reliability or security constraint, including through the increased need to issue market directions if demand response/RERT capacity is required to be withheld from the market during the 12 month gap.

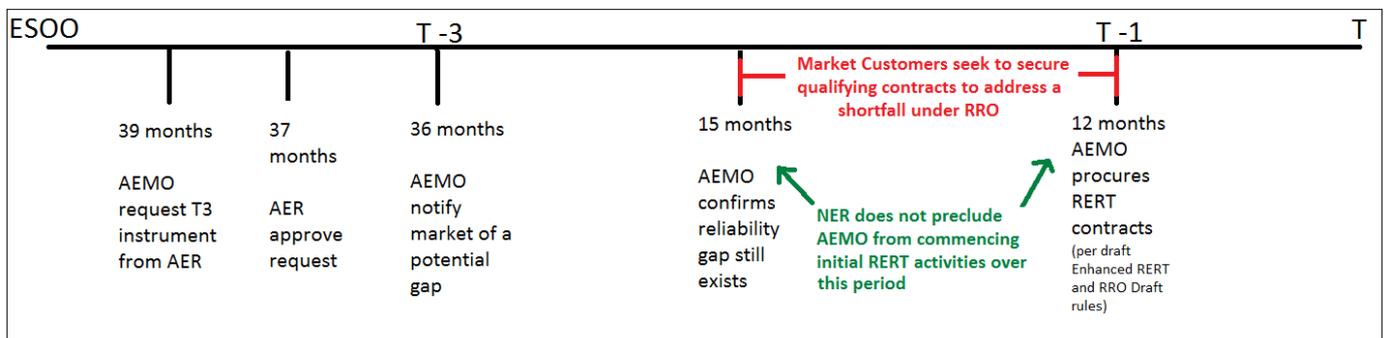
We note that while some grandfathering arrangements have been proposed, these are only applicable to existing emergency reserve contracts and would not protect against the risks flagged above once these contracts expire.

AGL therefore encourages the AEMC to revisit this area to ensure its policy intention is best addressed. We welcomes the opportunity to discuss these concerns and our RERT experiences with the AEMC further.

3. RERT Procurement Lead Time and Interaction with the Retailer Reliability Obligation (RRO)

AGL acknowledges the AEMC’s intention to align its RERT procurement lead time with the Procurer of Last Resort (POLR) obligation under the RRO. In our view however, the extension of AEMO’s contracting time will introduce an inherent overlap between participants seeking demand response contracts to meet their responsibilities under the RRO and AEMO beginning negotiations with the same demand response providers for inclusion in the RERT.

This issue arises because the Draft Rule does not explicitly preclude AEMO from commencing RERT procurement activities (i.e. internal preparations, expressions of interest and negotiations etc.) ahead of the formal RERT lead time date. Affirming the Draft Rule and extending the lead time from 9 to 12 months would be more likely to induce AEMO to begin these activities prior to the 12 month limit, putting AEMO in direct competition with retailers and possibly creating an unintended ‘crowding out’ consequence. This risk is explained further below, aided with a simple diagram.



As outlined, we note that there is a key contracting period for participants to ensure compliance with the RRO from 15 months prior to time T, through to 12 months to time T (i.e. the period where contracting positions are due to be locked in by Market Customers including retailers). This period will be critical for participants



to meet any contracting shortfall (particularly if the reliability gap forecast by AEMO increases) and avoid a POLR trigger.

However, as outlined in the Draft Rule, during this period AEMO could potentially commence its negotiations at the same time as Market Customers, including offering more favourable remuneration under its RERT contracts. This not only could result in a likely decrease in reliability cover in the spot market and impact on retailer's compliance gap obligations under the RRO; but also result in increased RERT costs, charged back to consumers.

While the intention of the Draft Rule's 'out of market provisions' goes some way to address this risk, our preference is that if AEMO's RERT lead time is increased to 12 months, the final RERT rule must prevent AEMO from commencing any RERT activities prior to this date (i.e. all RERT activities commence 12 months from the date of an identified reliability shortfall). This would assist in removing potentially distortionary impacts from AEMO participating in the same market at the same time. Particularly given the potential for AEMO to value such contracts above the market price cap.

If you have any queries about this submission, please contact Dan Mascarenhas on (03) 8633 7880 or DMascare@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux'.

Elizabeth Molyneux

General Manager Energy Markets Regulation