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Mr Joel Aulbury

Australian Energy Market Commission

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16 August 2019

Dear Joel,

ERC0270 Improving transparency and extending the duration of MT PASA

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Consultation Paper on improving transparency and extending the duration of the medium-term projected assessment of system adequacy (**MT PASA**).

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 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia.

The MT PASA is a critical tool for understanding the expected state of the national electricity market (**NEM**). For the Australian Energy Market Operator's (**AEMO**), the MT PASA facilitates an assessment of whether the reliability standard will be met, and therefore whether the Reliability and Emergency Reserve Trader (**RERT**) may be triggered. For the broader market, MT PASA can provide an investment signal on both the supply and demand-side.

The rule change proposal suggests that the MT PASA could be improved by adopting measures to increase transparency and to extend the outlook from the current two years, to three years. AGL broadly supports the concept of longer-term market forecasts but caution that any changes to the MT PASA framework should be considered in the context of related provisions of the National Electricity Rules (**NER**). Accordingly, in commenting on this rule change proposal, we have aimed to be mindful of the interlinkages in the NER, which seem to be increasing in number and complexity as market reforms progress.

The Consultation Paper notes that shifting the MT PASA outlook to three years better aligns with the notice of closure requirements. To the extent that such alignment provides benefits to the market, the MT PASA outlook would have to extend to 42 months to match the revised notice of closure requirements.

Additionally, the Consultation Paper recognises the overlap between the MT PASA and the Electricity Statement of Opportunities (**ESOO**), with the MT PASA being a live measure, and the ESOO presenting a point in time snapshot.

Historically, the ESOO's key purpose has been as a planning document, aimed at highlighting areas for potential capacity development, rather than forecasting specific risks of capacity shortfalls; the latter has been the key role of the PASA. The introduction of the Retailer Reliability Obligation (**RRO**) has seen the

ESOO's application expanded, so that where the ESOO forecasts a reliability gap, the RRO can be triggered. AGL and other stakeholders have previously highlighted the risks of linking the ESOO with the RRO, as the ESOO's longer-term outlook can forecast adverse long-term outcomes that are unlikely to eventuate in the PASA. This is because the ESOO methodology only includes committed projects rather than reasonable forecasts of projects that are likely to be developed.

Additionally, due to the different forecasting methodologies used by the ESOO and PASA, it is foreseeable that the RRO could be triggered due to a high unserved energy forecast in the ESOO, despite the MT PASA indicating no projected capacity shortfall. An extended MT PASA would provide a helpful reference point to ESOO forecasts.

We can see a role for the MT PASA's rolling capacity forecast being applied to improve the RRO's efficiency. For example, the MT PASA could be used to assist in determining whether a T-3 reliability instrument should be made (i.e. making an assessment of materiality), and whether a forecast reliability gap has been closed in subsequent periods outside of the annual ESOO process.

Adding this complexity to the RRO may not yet be warranted, as the impact and operation of the RRO is still untested. That said, we note that future amendments to provide more transparent and accurate signals for investment would be useful to achieve the aims of policy makers seeking to maintain reliability in the NEM through long-term investment in generation.

If you have any queries about this submission, please contact Liz Gharghori on (03) 8633 6723 or lgharghori@agl.com.au.

Yours sincerely,

Chris Streets

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