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Submission to Victorian Jurisdictional Derogation – RERT contracting (ERC0283)

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Consultation Paper on the Victorian Jurisdictional Derogation to the Reliability and Emergency Reserve Trader (**RERT**) contracting arrangements.

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.

AGL is cognisant of the changing dynamics of the NEM, particularly with the increasing penetration of renewables and transitional concerns with reliability. We are supportive of establishing market signals to drive the investment required to support the reliability of the NEM into the future. The RERT is a last resort intervention that is available to AEMO when market signals fail.

The Victorian Government is seeking a derogation to the RERT, to enable AEMO to enter into reserve contracts up to three years duration in that jurisdiction, instead of the current maximum of 9 months (or 12 months from March 2020).

The Victorian Government is concerned that there are insufficient resources that could enter RERT contracts to meet the projected unserved energy in Victoria this coming summer in 2019/20. Specifically, it considers that multi-year RERT contracts would entice additional resources that are uneconomic under a one-year contract, such as gas or diesel generators. The Victorian government notes that this is a transitional issue and proposes that the derogation have a sunset clause of 30 June 2025.

Role of the RERT

As noted above, the RERT is a last resort mechanism intended to operate only where market signals fail to deliver adequate levels of reliability. It is vital that the operation of the RERT not undermine the NEM or cause market distortions. Any distortionary interventions can put investments at risk and is then likely to become a self-fulfilling prophecy where delayed investment drives further intervention, which then again delays that investment. Ideally, resources should be incentivised to participate in the market instead of being 'available' for the RERT.



AGL previously raised concerns in the Enhanced RERT Rule Change that a longer contracting period of up to three years is likely to increase the risk of high availability payments for resources that are potentially not needed, and ultimately leads to increased costs to consumers.

However, we acknowledge that some generation and demand response participation are significantly lower cost to engage and operate over multiple years, given there are often significant upfront costs involved which can be spread over several years. Multi-year contracting would likely entice greater levels of participation in the RERT and provide a better value per megawatt. This could be considered where there are successive years of forecast unserved energy (USE). As noted above, this needs to be considered carefully against the preference that these resources participate directly in the market.

Specific feedback on the rule change proposal, if made

AGL is unclear of the rationale for ceasing the derogation in 2025 (with contracts out to 2028) when the Retailer Reliability Obligation will be addressing shortfalls from 2022 and the Demand Response Mechanism will commence in 2022 (according to the Draft Determination). Given the jurisdictional specific and transitional nature of this rule change, AGL suggests that the AEMC closely consider the most appropriate end date for such a derogation.

We also note that this derogation would provide for a time-limited strategic reserve in Victoria. Longer term, the ESB's 2025 review will consider the broader question of the future market design and may include the merits of strategic reserves within that new NEM framework. These are quite separate questions and the outcome of this rule change should not guide the outcomes for ESB 2025. We would also suggest that a multi-year contract under this derogation be provided with a different name, such as Victorian Emergency Reserves, to distinguish it from the normal operation of the RERT.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

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