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Australian Energy Market Commission

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Review of the form of the reliability standard and administered price cap

AGL Energy (AGL) welcomes the opportunity to provide feedback on the Australian Energy Market Commission (AEMC) Reliability Panel *Review of the form of the reliability standard and administered price cap* issues paper.

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.3 million energy and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 10,330 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

The form of the reliability standard

Traditional resource adequacy analysis has focussed on reliability risk in periods when there is inadequate capacity to meet demand i.e. in peak periods of limited duration. The Reliability Panel is concerned that with more variable renewable energy (VRE) in the system reliability events are more likely to be due to wind and solar droughts which can persist for significantly longer periods, and that this risk is not captured by the current reliability standard. While AGL agrees with this assessment of the changing reliability risk in the NEM we do not consider that it necessarily follows that the form of the reliability standard needs to be altered.

The Reliability Panel is proposing to build on existing modelling performed by the Australian Energy Market Operator (AEMO) for its Integrated System Plan to generate new information over unserved energy events and to use that model to test the impact of VRE droughts. We are grateful that this new modelling is occurring and suggest that once completed it may make it possible for VRE drought risk to be adequately captured in the determination of unserved energy under the existing reliability standard. While the duration of unserved energy events may not be adequately reflected in the reliability standard, the impact on consumers of these long duration events is typically mitigated by rotational load shedding since, unlike system security or network outage events, unserved energy events are more able to be controlled by AEMO.

The form of the administered price cap

AGL was pleased that the outcome of the 2022 Reliability Standard and Settings Review was an increase in the level of the APC from \$300/MWh to \$500/MWh for the period of 1 July 2025 to 30 June 2028. We also supported the subsequent temporary increase of the APC to \$600/MWh until 30 June 2025 due to the current high fuel prices. We consider that changes to the APC should continue to occur at fixed intervals rather than on a dynamic basis as the uncertainty of a dynamic APC would undermine contract markets and potentially also impact investment signals for new plant. We suggest that indexing the APC to the consumer price index would be most appropriate. We do not consider that indexing the APC to the market price cap would be appropriate as this may mean adjustments to the market price cap could become constrained because such adjustments would then require consideration of the impact on the APC. We also do not consider indexing to gas is appropriate as this would increase uncertainty in the level of the APC, and because gas will have declining relevance as the NEM transitions.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

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