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## Enhancing Investment Certainty in the R1 Process – ERC0363

Submission via AEMC website

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### AGL Response to Enhancing Investment Certainty in the R1 Process Rule Change Consultation Paper

AGL Energy (AGL) appreciates the opportunity to provide our feedback on the Consultation Paper on “Enhancing Investment Certainty in the R1 Process” (Paper) issued by the AEMC on 17 August 2023.

Proudly Australian for more than 185 years, AGL supplies around 4.3 million energy and telecommunications customer services. AGL is committed to providing our customers simple, fair, and accessible essential services as they decarbonise and electrify the way they live, work, and move.

AGL supports the request for the Rule change by Clean Energy Council (CEC). We are of the view that the proposed Rule change will materially improve the transparency and accountability on the operation of the current R1 processes, practices and responsibilities of all stakeholders. This is consistent with AGL’s significant experience in connecting and registering new generators, which we considered as problematic due the following two critical factors:

1. The lack of clearly defined process in identifying and allocating risk and responsibility of network and system security attributable to connecting generators and network issues to proponents, Network Service Provider (NSP) and AEMO.
2. The lack of firm guidance, clarity and decision-making on the Full Impact Assessment (FIA) process that are necessary for the proponents, NSP and AEMO to review and rectify any potential disparities between agreed Generator Performance Standards and the results of modelling.

Both factors have been contributing significantly to what AGL considers as inefficiencies in R1 process and assessments of R1 package leading to delays and increase in cost. In AGL’s view, such uncertainties at the crucial R1 phase in connecting generators were, and will continue to be, a barrier to achieving the required rate of transitioning to renewable source of energy supplies.

We have provided a detailed responses on the two key factors of concerns in the attachment.

Please contact Kong Min Yep on 0402060759 or [kyep@agl.com.au](mailto:kyep@agl.com.au) if you have any questions.

Yours sincerely,

Kyle Auret

**Senior Manager Wholesale Markets Regulation**



Attachment: AGL Detailed Responses to the Paper

Questions from the Paper	AGL Comments
<p><b>Question 1:</b> Do you agree that the absence of NER obligations on parties to the R1 process is contributing to poor engagement and process delays?</p>	<p>AGL notes the current set of Rules focus on the provision of Registered Data (S5.5.2), design and setting data. The Rules also provide details on the form of data, their relationship with the System Model as defined by a guideline (S5.5.7).</p> <p>There is however a lack of specific details and guidance on how these data and modelling will be agreed upon through a firm process and assessment criteria. Notably, this introduces uncertainties in investment decisions on a non-linear and inter-connected process from engineering studies, plant procurement to construction timelines involving decisions that can be costly to change including contract conditions.</p> <p>As the R1 process takes place at the back end of the generator connection, typically over two years, it is critical that risk of any significant deviation from earlier assumptions are controlled or mitigated through appropriate arrangements under the Rules effectively. This will increase the confidence on investment decision with some degree of certainty in project executions. AGL considers a Rule change as proposed by CEC as an essential step for a clearer, transparent and accountable R1 process on how AEMO and NSP apply the Models to R1 data outcomes and the varying degree of impact on performance standard and network security. A key element is to delineate the roles and duties of each party involved in the technical assessment process to facilitate a synchronized review and completion of the registration procedure.</p>
<p><b>Question 2:</b> How do connecting parties currently manage uncertainty regarding timeframes for the R1 modelling package assessment and to what extent does public data (e.g. AEMO Connection scorecards) assist?</p>	<p>AGL considers the management of timeframe for R1 modelling a difficult task as it is largely outside the proponent’s control and subject to discretionary decision. As there is little recourse in dealing with issues that are open to different interpretations, the proponent generally would choose to comply with requests from NSP and AEMO.</p> <p>That said, AGL has a risk-based project management approach to ensure we factor in the risk of such issues occurring and work collaboratively with all stakeholders. This will work more effectively if there is clarity on roles and responsibilities with well-defined and integrated R1 process and guidelines as those proposed by CEC.</p>
<p><b>Question 3:</b> Does the existing process for renegotiating technical performance standards create barriers for enabling connecting parties to negotiate efficient system security and reliability outcomes?</p> <p><b>Question 4:</b> Do you agree that there are problems with the way the R1 process seeks to resolve external system security issues?</p>	<p>The re-negotiating of performance standard is itself, not the key issue. It is the asymmetrical information and access to data and authority on network and system security analysis that present a barrier for the proponent to meaningfully discern any remedies.</p> <p>In AGL’s view, there is inadequate visibility on the root causes and proposed resolution of security issues, whether and how much it is attributable to a single connection, or wider network and system issues. It is generally up to the NSP to advise the proponent the required remedies which the proponents are obliged to comply. Additionally, it is imperative to establish a well-defined guideline that assesses the repercussions of alterations in the balance of plant and generating system components, such as inverters and Power Plant Controllers (PPC), on the overall system security. This guideline</p>

	should encompass comprehensive procedures for evaluating and addressing these impacts to ensure the robustness of the system's security measures.
<p><b>Question 5:</b> How material is the absence of an independent, external dispute resolution process for the efficient negotiation of technical performance parameters before registration approval?</p>	<p>While there could be a role for an independent dispute resolution, but AGL does not consider it is necessarily effective and could be time consuming. There is value in bringing together the disputing parties through the facilitation of a third party to discuss any issues in a formal setting. But on its own, it does not remove the risk associated with unequal resource in network and system expertise and information.</p> <p>It would be much more effective if there is a transparent process where a clear obligation exists to disclose network and system impacts arising from the connection application including factors contributing to system security; and that this information is readily available to the proponent and other stakeholders. This should minimise the need for any third-party intervention that often causes further delays without a firm outcome.</p>
<p><b>Question 6:</b> Would the proposed timelines provide sufficient certainty about the duration of the R1 model assessment phase?</p>	<p>AGL supports a firm timeline for R1 process to be an integral part of the overall connection timeline and process. This is particularly important as the difficulty in R1 process securing the agreed data and performance resulting from modelling is on the critical path of the connecting process for registration approval. A firm timeline will ensure all parties are committed to resolving the material issues in the most practical way and prioritising the highest impact issues over the minor issues.</p> <p>AGL considers the proposed response time upon receipt of R1 packages of 20 business days for AEMO to advise NSP; and 30 business days for NSP to review, accepts or reject the pathway Type, a reasonable start which should be reviewed from time to time.</p>
<p><b>Question 7:</b> Do you agree with the CEC's proposal for materiality guidelines, including whether they could appropriately define materiality thresholds for the categorisation of connection Types?</p>	<p>AGL considers a Materiality Guideline as fundamental to an effective outcome of this Rule change. It provides a key objective reference for all stakeholders in understanding and acting on the degree of impact on performance due to the deviation of modelling results from the agreed standards. It will serve to improve the transparency on the determinations and interpretations of such impact by all stakeholders that is currently insufficient. It forms the basis for subsequent discussions and collaboration through adequate level of disclosures of information and analysis relating to the technical issues, leading to a more constructive and productive resolution process.</p> <p>AGL acknowledges the definition of materiality threshold would require a significant effort with an industry wide consultation involving all stakeholders in the connection of generators. It must employ the most robust consultation process afforded under the NER Rules for it to work in practice.</p> <p>AGL supports the four key elements as outlined in the Paper but would stress the importance of the following factors:</p> <ol style="list-style-type: none"> <li>1. Agree on performance parameter that will be assessed. – it must consider parameters that are sensitive and closely related to the impact of connection on network- and system-wide parameters.</li> <li>2. Re-negotiate different thresholds for different scenarios – it must provide adequate flexibility for different local scenarios and technical requirements taking into account the limit in the capability of plant as designed and built.</li> </ol>

	<p>3. How framework issues to be identified and addressed improved based on past experience – AGL considers it crucial in setting up an interactive process overtime to capture on-going industry learnings in reviewing and updating the guidelines.</p> <p>4. Identify conditions that could have quantitative threshold – AGL is of the view quantitative threshold should be the first choice in defining materiality, providing unambiguous assessment of the degree of impact on deviation from performance standards.</p> <p>AGL stresses that in order for the materiality guideline to be developed, accepted and adopted by stakeholders, the process should be facilitated by an independent party or selected independent working committee to seek an agreed outcome. The Rule change should ensure there is appropriate level of authority for the independent process to take place.</p>
<p><b>Question 8:</b> What are your views about the proposed pathway for each connection Type, including the assignment of obligations and the allocation of costs and risks?</p>	<p>AGL supports the four proposed pathway and the allocation of risk and costs.</p> <p>The current single pathway is inadequate for a connection process that is subject to a range of scenarios and variations. The lack of process transparency in assigning an appropriately assessed and evaluated risk associated to the connection is not cost reflective and time efficient. In AGL’s view, there are cases where issues that may not have been directly related or attributable to a single connection point, or material, but a wider system issue that were inadvertently included in the single connection process. In some cases, the veracity of the modelling process may have caused further delay in connection and rendered the agreed remedies redundant.</p> <p>The proposed pathways, and the associated obligations to ensure a transparent assessment and reporting of proponent’s nominated pathway by the NSP and AEMO, would go a long way in ensuring all known and agreed issues are discussed and examined comprehensively by all stakeholders. The Rule change would need to ensure that all stakeholders are obligated to seek a practical and efficient way of addressing any discrepancies in performance standards.</p> <p>A good example of such efficiency in allocation of risk and cost is the approach adopted in addressing System Strength where the NSP is considered to be best placed to view the connection with respect to the wider network and other connection points; and any proposed remedies would take into account a broader analysis, and disclosed with sufficient details the appropriate level of contribution to system issues from each party.</p> <p>AGL notes that decision on the choice of an appropriate pathway by stakeholders is however contingent on an effective Material Guidelines being available to serve as a common and objective reference to what constitute and contribute to the relative degree of deviation from the agreed performance standard. The effectiveness of decision on the pathway would be further enhanced with the flexibility embedded in the proposed R1 process where re-negotiation of the materiality threshold is permitted for any unique and mitigating factors that may cause the deviation from</p>

	<p>performance but has little or no effect or concerns on the immediate system security.</p> <p>AGL is of the view that unless the Rule change has provisions and obligations that ensure a robust regulatory treatment on the choices of the pathway Types, it will be unlikely to unpack the technical details that are necessary for a pragmatic engineering solution to be developed and agreed by the stakeholders.</p>
<p><b>Question 9:</b> What are your views about the CEC’s proposal for dispute resolution?</p>	<p>AGL supports the provision for a third-party facilitator specifically to review and discuss the decision on R1 packages in the Rules.</p> <p>This would be in addition to the existing Independent Engineer under Rules 5.5 and Commercial Arbitrator under Rules 8.8.2.</p> <p>In AGL’s view, this dispute resolution measure needs to be there for the worst-case scenario where this proposed rule change fails to produce a resolution that is acceptable to the parties.</p> <p>However, AGL considers this a stop-gap measure where the up-front intent of the Rule change should be to ensure it is effective in producing an agreed pathway Types by focusing on the collaborative effort underpinned by enforceable obligations in the Materiality Guidelines sanctioned by the Rules.</p> <p>The proposed dispute resolution would need to ensure the parties are obligated to fully engage in the dispute resolution process and provide strong incentives to share reasonable requested information and analysis. While the decision of the facilitator may not be binding, the Rules should provide as much authority as possible for the facilitator to gain full cooperation from all stakeholders in a timely manner.</p> <p>AGL agrees that 10 business days is a reasonable time for NSP and AEMO to respond to a dispute resolution request but there should be a clearly defined dispute resolution process with an appropriate level of commitment to an agreed timeline for a resolution.</p>
<p><b>Question 10:</b> Do you support the CEC’s proposed model, or do you prefer an alternative approach? Are there any modifications to the CEC proposals that you believe may improve it?</p>	<p>AGL is satisfied with the proposed framework and approach in Rule change as outlined in their request.</p>
<p><b>Question 11:</b> Do you agree with the proposed assessment criteria? Are there additional criteria that the commission should consider, or criteria included here that are not relevant?</p>	<p>One possible criterion is to consider the risk presented by the current R1 process and practices that may materially impact on the rate at which the connection of new renewable plants is required to meet the target of transitioning to a decarbonised market.</p> <p>This may be related to the Emission criterion as outlined in the Paper, but possible delays due to an inefficient and ineffective R1 process in connection could have specific impact on wholesale prices, by scheduled closure of coal generators, and on higher related cost. The level and consequences of such impact may possibly be considered as part of the Commission’s analysis but in AGL view, should be included in the assessment criteria.</p>