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Australian Energy Market Commission

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Enhancing investment certainty in the R1 process

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) Enhancing investment certainty in the R1 process draft rule.

About AGL

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 operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emission, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

The draft rule does not resolve the uncertainty in the R1 process

We are disappointed the AEMC has decided not to adopt the Clean Energy Council's (CEC's) proposed self-assessment, type pathways, materiality guidelines, and conditional approval.

The AEMC's proposed draft rule would:

- provide generators with the ability to request written justification from Network Service Providers (NSPs) and the Australian Energy Market Operator (AEMO) for additional modelling requests.
- remove a barrier to agreeing on reasonable and pragmatic revisions to the GPS during renegotiation in the R1 process.
- formalise the commencement and conclusion of the R1 process through timely notifications by NSPs and AEMO.

We consider these initiatives are positive and will somewhat enhance investment uncertainty in the R1 process, however we consider the initial rule change proposed by the CEC more fully addresses the issues with the R1 process. We therefore strongly suggest the AEMC reconsider its draft rule and consider adopting rules more aligned with the intent and content of the CEC's initial rule change request. As it currently stands the draft rule gives too much discretion to AEMO and the NSPs and it will therefore lead to less transparency and more uncertainty in the R1 process when compared to the CEC's proposed rule. We note that the CEC's rule change request was developed with considerable stakeholder engagement, over a considerable time, and is widely supported by industry.

We strongly suggest that the R1 connection process includes more specific obligations and milestones on AEMO and the TNSPs so that connecting parties have greater certainty and transparency regarding the connection process. The proposed formalisation of the commencement and conclusion of the R1 process are helpful in this regard, however more obligations and milestones of this kind are required.

We appreciate the need to balance the imperative of expediting processes with upholding power system due diligence, however we contend that the AEMC's draft rule diverges from the core issues highlighted which are the absence of well-defined protocols for determining and assigning risk and accountability for network and system security concerns. Whereas the CEC proposed rule prioritises transparency, industry consultation, and accountability in the decision-making process.



Guidelines relating to the R1 process should be updated

We strongly support the AEMC's recommendation that AEMO and relevant NSPs update their guidelines relating to the R1 process with a particular focus on clarifying how adverse system security risks are assessed in the R1 process. We suggest this process should involve detailed industry consultation to ensure the guidelines clearly explain how to identify and assign responsibility for risks related to connecting generators and network issues. The guidelines should ensure that everyone involved, proponents, NSPs, and AEMO, understand their responsibilities, and that these responsibilities are clearly articulated with a sound engineering basis to minimise delays in the connection process.

While the AEMC has suggested that an obligation in the rules to review and update the guidelines is unnecessary as AEMO is currently in the process of updating the rules, we consider that past connection guideline reviews have often not led to timely and necessary updates to the guidelines, and we therefore suggest the requirement to update the guidelines should be within the rules with mandated timeframes. We also suggest the guidelines should be reviewed every two years given the importance to the transition of an efficient, fit for purpose, R1 connection process.

We support flexibility in regard to the 'no less onerous' clause

Currently if a negotiated service standard is varied it must be no less onerous than the existing performance standard. This rule limits flexibility and can lead to delays for connecting applicants.

While the AEMC rejected the CEC's proposal to delete this whole clause, the draft rule introduces some flexibility by removing the wording 'no less onerous' which permits revisions of the GPS below the current standard. We support this aspect of the draft rule as it gives flexibility for generators who may need to revise their GPS below the current standard.

The draft rule will not resolve the inadequacies of the existing dispute resolution framework

AGL considers that an effective dispute resolution framework for R1 connection disputes requires three key components. First, it must be adjudicated by an independent expert due to the complexity of the R1 connection process. Second, the adjudicator must have the power to make binding decisions otherwise it will be ineffective and have little deterrent effect. Third, there must be specific obligations and milestones to which the AEMO and the NSPs can be held accountable (as discussed above).

The three current dispute resolution options under the existing rules do not have these components as technical review by independent engineers is non-binding, commercial arbitration has insufficient obligations to which AEMO and the TNSPs can be held accountable, and dispute resolution under Chapter 8 only applies to TNSPs in Victoria and is a broad power that is unlikely to be adjudicated by someone with the necessary technical expertise.

We consider the best way to ensure the final rule has the key components outlined would either be through making technical review by independent engineer binding or through further developing the CEC's proposed facilitated review framework.

If you have queries re this submission, please contact Kong Min Yep on 0402060759 or kongmin.yep@agl.com.au.

Yours sincerely,

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