

A few  
words.

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Reference: ERC0198

Dear Ms Ross,

### **Re Extension of the Reliability and Emergency Reserve Trader**

AGL Energy (**AGL**) welcomes the opportunity to respond to the AEMC *Extension of the Reliability and Emergency Reserve Trader Consultation Paper*. AGL notes that the Council of Australian Government's Energy Council (COAG EC) request to extend the Reserve Trader mechanism is attributed to 'ongoing risk of heatwaves and significant changes to the generation mix' and that 'extension of the Reliability and Emergency Reserve Trader would also provide time to further unlock demand side participation in the market'.<sup>1</sup>

AGL is one of Australia's leading integrated energy companies and 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, providing energy solutions to over 3.7 million customers throughout eastern Australia.

Over the past 12 months there has been an increased focus on wholesale electricity market outcomes, particularly those in South Australia (SA), and whether or not the National Electricity Market (NEM) alone will continue to deliver reliable and secure electricity supply.

In addition to the COAG EC Reserve Trader extension request, the Australian Energy Market Operator (AEMO) has formed a new Power System Implications working group and the SA Government has also convened a roundtable of energy users and suppliers in order to discuss what, if any, actions could be taken to deal with the changing generation mix in the State and the possible impacts on electricity reliability and price. Further, the SA Government released a procurement proposal in December 2015 for interested parties to put forward 'innovative' solutions to meet the State Government load, as a means to deliver investment in new 'innovative' supply solutions in the State.

AGL considers therefore that the COAG EC Reserve Trader extension request is essentially the next step in the broader debate that is currently unfolding as to what measures, if any, are required to ensure the reliable and secure supply of electricity as the sector transforms towards a lower emissions future.

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<sup>1</sup> Council of Australian Governments Energy Council, Senior Committee of Officials, *Extension of the Reliability and Emergency Reserve Trader Rule change request*, December 2015.

## **Should the Reserve Trader mechanism be extended?**

Fundamentally, AGL supports the principle of measures being incorporated in the NEM design that are aimed at mitigating the risk, and potential adverse impacts, of diminishing electricity supply reliability and security – the inclusion of ‘safety-net’ provisions. AGL considers that such measures, including the Market Price Cap, the Cumulative Price Threshold and the Administered Price Period, have historically worked to mitigate the adverse impacts of a market that can be highly volatile.

Although AGL supports safety-net provisions in principle, AGL considers that rather than merely extending the Reserve Trader mechanism, as proposed by the COAG EC, there is now merit in completing a more comprehensive assessment as to what measures, if any, are required to ensure electricity supply reliability and security during the transformation of the sector. This includes measures aimed at addressing the oversupply of generation capacity in the NEM.

In support of AGL’s position, AGL considers it is now abundantly clear that the significant investment in renewable energy capacity in the NEM, both large and small scale, coupled with the retirement of generation capacity, is impacting market outcomes. Specifically, AGL notes the outcomes in SA in October and November last year, where AEMO was required to contract an additional 35MW of Frequency Control Ancillary Services, and a trip of the Heywood interconnector saw a large amount of load shedding in the region. This is in addition to the AEMO low reserve forecasts contained in the 2015 Electricity Statement of Opportunities within the SA region for summer 2016-17 and summer 2017-2018.

A further argument in support of a more comprehensive assessment is the fact that, due to generation asset retirement and mothballing, there may be limited opportunities for AEMO to contract with supply side reserves – in order to operate the Reserve Trader mechanism (noting that demand side reserves, still under development, remain an option).

Finally, COAG EC justification for extending the Reserve Trader Mechanism is due to ‘extenuating’ market circumstances. Given that there has now been a series of requests to extend the Reserve Trader mechanism over a period of time due to ‘extenuating’ circumstances’, AGL considers that this warrants a more complete assessment as to the framing of any additional measures, including safety-net provisions, that may be required.

Historically, proposals to complete a more comprehensive assessment of the NEM settings in these circumstances have been generalised to a debate as to the pros and cons of an ‘energy only’ market versus a ‘capacity market’. AGL considers that the debate should necessarily be broader than this, and that consideration should as well be given to alternative solutions aimed at facilitating the orderly retirement of surplus generation capacity in the market and possible changes to ancillary service settings.

Accordingly, AGL encourages the AEMC to not limit itself to simply considering the extension of the Reserve Trader mechanism but to use this opportunity to propose an appropriate rule that effectively defines the market settings in ensuring the reliable and secure transformation of the sector.

## **Reserve Trader effectiveness and impacts**

AGL notes that it is a difficult proposition to assess the effectiveness of the Reserve Trader mechanism as, although capacity has historically been contracted under the mechanism, it has not been dispatched or activated at any point in time. Further, because of the low incidence of frequency of AEMO contracting capacity under the Reserve Trader mechanism, it is highly unlikely to have had any meaningful impact on incentives in the market – either for supply side or demand side reserves.



In conclusion, AGL supports the principle of 'safety-net' provisions being incorporated in the NEM design. However, AGL considers that the COAG EC's request to extend the Reserve Trader mechanism provides an opportunity for the AEMC to conduct a more comprehensive assessment as to what measures, if any, are needed in order to ensure electricity supply reliability and security as the sector transforms towards a lower emissions future.

Should you have any questions in relation to this submission, please contact me on 03 8633 6967.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux', is positioned above the printed name.

Simon Camroux  
Manager Wholesale Market Regulation