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Submission to Removal of intervention hierarchy rule change (ERC0291)

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Draft Determination on the Removal of intervention hierarchy rule change (draft determination).

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.

The AEMC draft rule determination proposes to remove the current intervention mechanism hierarchy and replace this approach with a requirement AEMO undertake reasonable endeavours to apply a principles approach when determining the appropriate intervention mechanism during a supply scarcity event. Under the draft rule, AEMO will endeavour to select an intervention mechanism that is effective in addressing the need to intervene in the market while minimising direct and indirect costs. These costs are in part defined under the draft rule.

We support the AEMC's objective of reducing unnecessary cost to the market when a market intervention events occurs. Consistent with the AEMC Interventions Investigation final report recommendations, the proposed changes provide AEMO with improved flexibility where the activation of RERT may not be the most efficient mechanism to address the potential supply shortfall. We therefore support the removal of the intervention hierarchy with the proposed effectiveness and least cost principles approach (principle-based approach) subject to the AEMC addressing the concerns raised below.

We agree with the AEMC's assessment that directions could in theory offer a more efficient lower cost option for market interventions than RERT. However, we note that with regard to instructions the effect may be less clear. Whilst directions form an important mechanism in ensuring all potential scheduled capacity is available during a supply shortfall, importantly this potential scheduled capacity can never be provided through RERT. Under the proposed changes there is scope for a customer load reduction to be both subject to RERT activation or an instruction. In the interests of certainty for demand response RERT providers, we consider the rules should still require the activation of RERT ahead of a targeted instruction issued to a RERT provider.

We also request the AEMC consider if this could lead to a reduction in the procurement of demand response for RERT given AEMO's capacity to instruct the participant regardless of the RERT agreement. This issue may diminish the bargaining position of potential demand response RERT providers.



We support the AEMC’s draft decision to make a more preferable rule with regard to the assessment of costs. It is important that the rule clearly identifies both direct and indirect costs when AEMO undertakes a cost assessment. As the AEMC has outlined in the draft determination, there is no catch-all definition of direct and indirect costs in the NER. In the interests of certainty and market confidence, we support the example based approach to defining the direct and indirect costs under 3.8.14 of the NER subject to an amendment to the indirect cost examples provided. We consider the examples of indirect costs under the rules should also include the cost of third-party arrangements such as the lost opportunity to provide demand response. This is particularly important where large C&I customers provide load curtailment to retailers to assist in the management of the retailer’s portfolio. In the event of a load shedding instruction targeted at these types of C&I customers, the load curtailment right will potentially no longer be available to the retailer therefore undermining the commercial agreement.

We support the additional AEMO guideline requirements to set out AEMO’s methodology in undertaking the principles-based approach. Whilst this assessment provides AEMO with added flexibility, the framework should still preserve accountability and industry certainty in how the intervention mechanisms operate. Furthermore, we consider the additional AEMO reporting requirements provides the necessary transparency in how this principle-based approach is consistently undertaken.

If you have any queries about this submission, please contact Kyle Auret on (03) 8633 6854 or KAuret@agl.com.au.

Yours sincerely,

Chris Streets

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