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**Mr John Pierce AO**

**Chair**

**Australian Energy Market Commission**

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**Lodged electronically via website**

**2 April 2020**

**Submission to the Connection to Dedicated Connection Assets rule change: Consultation Paper**

AGL Energy Limited (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 3.6 million customers across the National Electricity Market and Western Australia. In addition, we continue to be an aggregator and developer of Demand Response (DR) and Distributed Energy Resource (DERs) solutions including the deployment of Virtual Power Plants (VPPs).

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Connection to Dedicated Connection Assets (**DCA**) rule change Consultation Paper (the **Consultation Paper**). We understand the rule change proposal submitted by the Australian Energy Market Operator (AEMO) seeks to clarify the National Electricity Rules (**NER**) requirements on DCAs, with specific focus on the connection of multiple proponents, potentially as an option to progress the uptake of Renewable Energy Zones (REZ). For the purposes of AGL's submission, we have interpreted reference to 'multiple proponents'<sup>1</sup> as 'multiple commercially independent proponents'.

AGL acknowledges AEMO's concerns cited in the Consultation Paper. We agree that there is merit in exploring further how the NER would apply to DCA's with multiple commercial users. However,

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AGL queries whether the timing of this rule change proposal is appropriate, specifically in light of the recent direction by the COAG Energy Council to task the Energy Security Board to progress the development of a REZ framework<sup>2</sup> and their broader work program to review how the NEM will operate in the near future to account for the current market transition. In our view, the outputs and outcomes specifically derived from the ESB processes will likely shape REZ policy and regulatory framework design in the NEM. The processes and any recommendations are therefore also likely to interact with the 2017 Transmission Connections and Planning Arrangements rule<sup>3</sup> and could diverge with any proposed changes under this rule change. AGL encourages the AEMC to consider how best to progress this rule change proposal in the current regulatory environment.

Nevertheless, AGL appreciates the forward planning undertaken by AEMO in determining where potential regulatory issues may exist, ahead of problems arising in the market. While we agree that operationally, the existing DCA framework would make it difficult for AEMO to manage operational balancing and identify non-compliance, suitable flexibility must remain to ensure the framework remains commercially viable and attractive to proponents. An overly prescriptive framework may introduce cost and risks to proponents that may be untenable. For example, requiring NEM-compliant metering systems, and a renegotiation of generator performance standards etc., where new proponents connect to a common DCA will place significant unquantifiable costs<sup>4</sup> on the foundation user (i.e. the first DCA connected proponent) and subsequent connecting parties, eroding commercial value and increasing overall risk.

AGL supports the AEMC looking to the recently reviewed embedded network framework<sup>5</sup> as a possible alternative approach aimed at delivering better balance between regulatory oversight, operational assurance and commercial benefit.

Under this approach, the Dedicated Connection Asset Service Provider (DCASP) could be responsible for commercially negotiating access terms with the proponent, including operational costs, compliance obligations and export rights. In addition, all NEM balancing services and operational processes, such as loss factors, accuracy of metered flows, prudential matters and use of service charges etc., could be made attributable, both legally and financially, to the DCASP. Where non-compliance with the NER was identified at the DCA connection point, the DCASP as the financially responsible market participant (FRMP) would be held accountable under the NER but could commercially enforce and address these issues directly with its connected users.

Further, AGL believes there would be no need to create transmission connection points for each DCA proponent, nor re-evaluate the principles of open access under an embedded networks style arrangement. However, to limit any issues of commercial frustration, we encourage the AEMC to

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<sup>2</sup> <http://www.coagenergycouncil.gov.au/publications/energy-security-board-outcomes-23rd-energy-council-ministerial-meeting>

<sup>3</sup> From which DCAs were recognised by and introduced into the NER.

<sup>4</sup> AGL acknowledge a proponent could undertake some quantitative modelling and sensitivity analysis to determine the likely costs face. However, these would remain estimates to guide an investment decision.

<sup>5</sup> <https://www.aemc.gov.au/market-reviews-advice/updating-regulatory-frameworks-embedded-networks>



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consider how best to ensure that the rules obligate the DSCAP as FRMP to acts in line with the best interests of its connected users.

Should a rule be made by the AEMC with respect to DCAs, AGL supports grandfathering rights to existing DCAs. Only where the DCASP accepts a new connection user, should they be obligated to follow any new rule.

If you have any queries about this submission, please contact Dan Mascarenhas on (03) 8633 7880 or [DMascare@agl.com.au](mailto:DMascare@agl.com.au).

Yours sincerely,

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