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Australian Energy Market Commission

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AGL Response to Retailer Reliability Review draft report ERC0353

AGL Energy (AGL) welcomes the opportunity to comment on the AEMC Review of the Retailer Reliability Obligation (RRO) draft report (draft report).

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.

This draft report sets out a number of reforms to the RRO process with a view to reduce regulatory burden and support a more efficient market, whilst maintaining the reliability measures that are in the long-term interests of consumers. AGL welcomes the 14 recommendations made to the draft review as broadly supporting this objective, however we have identified a few additional improvements that could be made in the long-term interests of consumers.

Changes to the T-1 Trigger

AGL is supportive of the AEMC's draft recommendation to move the T-1 Net Contract Position (NCP) compliance date to T. This change would improve both the allocative and dynamic efficiency of the overall scheme. It will do this through:

- minimising the length of time qualifying contracts are required to be held – allowing for resources allocated to contracting to be more efficiently allocated;
- allowing for more accurate information to inform more efficient contracting levels;
- allowing for greater quantity of contracts for any new connections that occur between T-1 and T reducing the costs of contracts; and
- avoiding contracting for reliability gaps that do not occur.

This change should achieve these benefits, without meaningfully impacting the desired improvements in reliability. In finalising the details of this change, the AEMC should consider the proposed reporting dates if the NCP is moved to T. If the reporting date is moved to T, it may create a regulatory burden over the January period where participants are busy managing peak demand, and staffing levels are low.

MLO bid requirement

In AGL's submission to the RRO review consultation paper we suggested an improvement to the operation of the MLO by removing the requirement for MLO generators to provide both a bid and offer during the MLO trading window. The requirement for MLO generators to bid creates a negative outcome for the market as it introduces an incentive for speculative sellers to access the MLO bids to take advantage of the heightened regulatory-induced trading period. This causes churn in the market that is not representative of retailer-generator trading activity. In effect, the MLO bidding requirement forces MLO generators to buy contracts that do not facilitate retailer activity to meet the RRO contract requirement during this critical period. AGL understands this requirement was introduced to increase the quantity of qualifying contracts and prevent these contracts from being traded at inflated prices. However, there are already a number of mechanisms in place to ensure competitive pricing of these contracts. Additionally, the draft recommendation seeking to broaden the types of contracts in the market would also increase the liquidity and competitiveness of qualifying contracts. Furthermore, the draft recommendation which seeks to lower the threshold for participation as an MLO generator would increase the number of MLO generators, and thereby heighten the relevancy of this proposed improvement. We recommend the requirement for MLO generators to bid during the trading window be lifted as it unnecessarily penalises MLO generators.

Marginal breaches of the Interim Reliability Measure

The current Interim Reliability Measure, which was recently recommended to be extended to operate until 2028, operates as an automatic trigger regardless of the size of the reliability gap. This automatic trigger could create circumstances where quite marginal breaches, which may or may not eventuate, trigger the RRO at significant cost to consumers. AGL consider additional discretion should be provided to AEMO or the AER where the breach of the measure is marginal. Using this discretion, AEMO or the AER could consider some qualitative factors that may impact the likelihood of the reliability gap occurring and allow for further investigation of input assumptions. This change could reduce unnecessary costs to consumers.

Verification of information when material to triggering the RRO

As observed in the recent SA 24 T-1 declaration, there is significant industry concern regarding the accuracy of forecast generation retirements and the availability of new projects during the reliability gap period. Whilst industry proponents knew the assumptions were questionable, there was no evidence to demonstrate this unless the asset owner or developer came forward to provide the required information.

The issue is that the traditional onus on the developer or registered participant to inform AEMO for the ESOO input assumptions falls short of the robust assessment of the validity of the input assumptions required for the reliability gap forecast. Given the regulatory implications of the reliability gap forecast, material input assumptions must be proactively tested and verified by AEMO or the AER. While the AER is required to enforce requirements that obligate market participants to provide AEMO with accurate information, this does not necessarily cover the accuracy of information provided by developers and new generators seeking connection. Furthermore, the MTPASA forecasts which inform some of the reliability assessments rely on participants making 'best endeavours' to provide accurate information. While this is appropriate for the MTPASA process, introducing an additional level of verification where a limited number of inputs are material to a forecast reliability gap may be beneficial to the market and consumers. AGL recommends that this additional verification step is added in AEMO procedures and that prior to a reliability gap being called, appropriate due diligence should be conducted on the critical pieces of information that contribute to this assessment.

Minimum trading parcels

AGL recommends the minimum size of market making contracts volumes under the MLO reduce from 5MW to 2MW. Given recent market trends, there has been relatively low trade of lots greater than 2MW, particularly for periods far out in the curve. Amending the minimum trading parcels to 2MW would thereby improve liquidity of trades and support the more efficient operation of the market, without creating any significant issues for participants seeking contracts.

If you have queries re this submission, please contact me on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

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Wholesale Markets Regulation