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Australian Energy Market Commission

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Review of the form of the reliability standard and administered price cap: Directions Paper

AGL Energy (AGL) welcomes the opportunity to provide feedback on the Australian Energy Market Commission (AEMC) Reliability Panel (Panel) Review of the form of the reliability standard and administered price cap (APC) Directions paper.

Proudly Australian for more than 186 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 (NEM), 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 emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

AGL welcomes the Panel's modelling undertaken to analyse reliability risks regarding unserved energy (USE) events associated with the shift from predominantly thermal generation to variable renewable energy (VRE) and firming, in the NEM. While AGL considers the modelling provides useful preliminary insights about the nature of USE events, we do not consider that it necessarily follows that the form of the reliability standard needs to be altered. AGL supports further modelling and analysis across a greater range of scenarios to further explore the nature of USE with increasing VRE in the NEM.

The form of the reliability standard

AGL acknowledges the role of Value of Customer Reliability (VCR) in helping to balance reliability and investment/cost in the energy system. AGL considers that while VCR could be used to inform the Panel's modelling and research regarding USE; it should not be used to determine the form of the reliability standard.

AGL supports further collaboration between the Panel and the Australian Energy Regulator (AER) to enhance the methodology for reflecting future USE events. This includes both anticipated and unexpected events, such as those predicted through improved weather forecasting.

AGL acknowledges the Panel's modelling indicates:

- USE events may be more severe in an under-resourced system.
- A potential shift in reliability risks from summer to winter due to increasing VRE over time.
- USE events may shift to be increasingly driven by the weather.
- USE events may spread across the day rather than just the evening peak.

AGL considers these findings primarily driven by underlying assumptions used in the Panel's modelling approach. AGL notes the Directions paper highlights the following caveat throughout:

"However, it is important to note that the findings are a result of trends appearing in the AEMC's under-resourced NEM model derived from the ISP. The future power system may look quite different. This model cannot generate any conclusions regarding the probability of USE events occurring in a realistic future system. Rather, it is designed to generate an understanding about the changing characteristics of the USE distribution."



AGL does not consider the modelling findings presented form a basis for changing the form of the reliability standard as the modelling assumptions are based on a significantly under-resourced view of the future energy system. AGL considers there is value in potentially modelling a greater range of scenarios rather than just the significantly under-resourced future system presented in the Directions paper e.g. modelling a greater range of system resource scenarios that align with the Australian Energy Market Operator's (AEMO) Draft 2024 Integrated System Plan (ISP).

The form of the administered price cap

AGL supports the Panel's proposal to shortlist the two options in the Directions paper and welcomes a technology-neutral approach to the APC. As AGL expressed in its May 2023 submission to the issues paper, AGL considers indexing the APC to CPI the more preferable option.

AGL considers that changes to the APC should continue to occur at fixed intervals rather than on a dynamic basis as the uncertainty of a dynamic APC would undermine contract markets and potentially also impact investment signals for new plant. AGL does not consider that indexing the APC to the market price cap would be appropriate as this may mean adjustments to the market price cap could become constrained because such adjustments would then require consideration of the impact on the APC.

If you have any queries about this submission, please contact Alifur Rahman on +61 416 00 1664 or at ARahman3@agl.com.au.

Yours sincerely,

Anton King

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