



AGL Energy Limited

T 02 9921 2999

F 02 9921 2552

agl.com.au

ABN: 74 115 061 375

Level 24, 200 George St

Sydney NSW 2000

Locked Bag 1837

St Leonards NSW 2065

Australian Energy Market Commission

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Improving Security Frameworks – transitional services

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) Improving security frameworks transitional services update paper.

About AGL

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.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, 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.

Question 1: Contract types

- Do you consider that the revised arrangements for type 1 and type 2 contracts provide adequate investment certainty for new technologies and better reflect the new NEO and the pace at which system understanding is progressing?

AGL supports the implementation of a new Non-Market Ancillary Service transitional services framework to allow for the contracting of system services and the two new contract types:

- Type 1: contracts of up to 3 years to procure system services to meet critical and immediate security needs of the power system, where no other planning framework applies, with AEMO procurement power ceasing after five years
- Type 2: contracts of up to 10 years with emerging technologies with the purpose of trialling these resources to develop AEMO's understanding of managing security in a low or zero emissions system, with a 10 year sunset to the framework.

We suggest this framework should commence as soon as possible and by Q1 2025 at the latest for Type 1 contracts, given the current over reliance of directions in the NEM.

We support the transparency obligations around these contracts but suggest that there also be transparency regarding any ancillary system service, which may be effectively procured under the contract to meet system security needs but may not be the primary driver of the contract or even listed explicitly in the contract. This would assist new entrants in determining if they can enter and compete to provide the needed services.

Question 2: Design changes

- Are there any further amendments to the transitional services framework you consider are needed?

We support the proposed design but would appreciate the opportunity to provide feedback on the proposed principles for compensation under the contracts. We suggest the AEMC ensure that providers of transitional services receive fair value for their provision, including an allocation for scarcity, to ensure that the appropriate investment signals are provided.



Question 3: Transparency

- Do you consider the transition plan for system security would improve transparency on long term security needs?

Yes, we strongly support the creation of a biennial transition plan for system security to outline AEMO's current understanding of security services including details of planned work, operational metrics, long-term plans, required capabilities for new entrants, and plans on how AEMO will move from the transitional framework.

Question 4: Transition plan for system security

- Is there anything missing from the transition plan for system security that is needed to further promote investment signals and increase transparency on security needs?

AGL appreciates that the AEMC has noted that the ultimate goal is to individually procure and value security services, where possible, and that the transition plan does not preclude the continued consideration of a market for inertia. We look forward to the Inertia draft determination on 29 February.

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

Yours sincerely,

Chris Streets
Senior Manager Wholesale Markets Regulation