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Australian Energy Market Commission

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## **Review of the form of the reliability standard and administered price cap: Draft Report**

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) Draft Report.

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.

### **The form of the reliability standard**

We welcome the Panel's draft recommendation to maintain the current form of the reliability standard while making a range of process improvements on how the current standard is communicated, operationalised, and implemented.

We support with the Panel's finding that the existing form of the reliability standard continues to be fit for purpose and can adequately capture the changing risk profile as the NEM transitions. We agree that using the reliability standard to address a small proportion of very rare unserved energy (USE) events will likely result in an excessive cost burden on consumers, regardless of which form it takes, since the reliability standard, as a tool, is not intended to achieve absolute reliability.

### **The form of the administered price cap**

AGL notes the Panel's draft recommendation to maintain the current form of the APC and undertake a regular review of the level of the APC with every Reliability Standard and Settings Review (RSSR).

AGL is supportive of maintaining the APC at \$600/MWh as this is more likely to capture the marginal cost of the most marginal generator on a more consistent basis than the previous APC of \$300/MWh. AGL notes an inadequate APC was one of the contributing factors to the June 2022 NEM market suspension.

As expressed in our submission to the Directions paper, we consider indexing the APC to CPI to be our preferred option to ensure the APC remains consistently reflective of market prices. Ensuring the APC continues to remain at an appropriate level will improve the likelihood it will cover the short-run marginal costs of the most marginal generator, thereby reducing the probability of future market interventions.

AGL does not consider a four-yearly RSSR process to be sufficient in setting the right level of APC. Over a period of four years, the APC may come to be out of sync compared to market conditions by a significant percentage, especially if inflation is high, thereby reducing the effectiveness of the APC and increasing the likelihood of market interventions. Indexing the APC in line with CPI will at least ensure it changes at a steady rate, thereby reflecting the true marginal cost of the most marginal generator more accurately.

Furthermore, we acknowledge the purpose of the APC is to protect market participants from exposure to extended periods of high prices, and its role in being a key component of the hedging strategy of market



participants and of contract prices. We also consider the APC has a role in contributing to generation investment decisions, particularly for marginal generators. Noting the current compensation frameworks do not account for opportunity cost, particularly where this relates to fuel, be it gas for gas peakers or electricity for batteries, an inadequate APC represents a financial burden for marginal generators that typically capture most of their upside (and return on investment) during high price periods. Therefore, it is important there is suitable consideration given to setting the APC at an appropriate level which incentivises marginal generators, while balancing the need to protect market participants from exposure to extended periods of high prices.

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

Yours sincerely,

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