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VRET2 Market sounding

Victorian Department of Environment, Land, Water and Planning

via email: VRET2@delwp.vic.gov.au

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AGL Response to Consultation on VRET2 market sounding

AGL Energy (**AGL**) welcomes the opportunity to comment on the Victorian Government's VRET 2 market sounding consultation.

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 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia, and South Australia.

As the first stage of meeting the VRET target of 40 per cent of renewable energy generation in Victoria by 2025 (**VRET II**), the Victorian Government is undertaking a market sounding process to examine auction design options and potential Victorian Government contract arrangements for its own consumption.

AGL supports Victorian government policy to increase renewables in the generation mix, noting the need to make sure successful projects integrate well with the rest of the grid. While AGL prefers national arrangements, we understand that each State will have policy aims, and we support those aims while balancing reliability and stability of the electricity system. We therefore consider this initial stage of consultation is important to ensure the design and ultimately the implementation of VRET II appropriately considers industry views of an appropriate procurement framework that effectively meets the VRET II renewable target whilst continuing to support the system at least cost to consumers.

On 28 September, AGL provided a detailed response to the questions outlined in the consultation paper in a meeting with DELWP's consultants (PWC). The purpose of this submission is to re-iterate some key points we discussed in this meeting regarding the Victorian Government contracting arrangements for its own consumption. This submission should therefore be read in conjunction with the feedback we have already provided in this previous meeting.

With regard to the Victorian Government load contracting options, the three options proposed have merit depending on the contracting objectives and the party (retailer or project developer) the government decides to contract with. We have considered these options in light of how our business may best achieve the evaluation criteria at the lowest cost. Ultimately the trade-off between these options needs to be carefully considered as additional risks that may arise for a retailer under the different options and some options may lead to a less efficient risk allocation, thereby increasing costs of the arrangement.

In particular, we note the following:

- We consider option 3 – Sleeved PPA single stage, retailer led, provides AGL with best available opportunity to provide an integrated end-to-end solution that will efficiently incorporate the renewable energy requirements, shaping the Government load to dispatch requirements, and



ultimately the retailer arrangement. It is this option that AGL considers enables efficient risk allocation across the various parties and is most likely to lead to better cost efficiency.

- Option 1 carries challenges for the Government as ultimately the contractual arrangements of the designated projects will need to align with the prospective retailer's business operations and prudential risk requirements. Where these do not align, additional costs may arise or a retailer may be unable to agree to the terms of the project under development. This is particularly important with regard to factors such as the nature of the site, project implementation timelines and the commercial ramifications of any delays.

If you have any queries about this submission or the feedback we have already provided on 28 September, please contact Kyle Auret on (03) 8633 6854 or KAuret@agl.com.au.

Yours sincerely,

Chris Streets

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