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**Mr John Pierce**

**Australian Energy Market Commission**

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**1 August 2018**

**Submission to Enhancement to the Reliability and Emergency Reserve Trader – Consultation Paper (ERC0237)**

AGL Energy (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Enhancement to the Reliability and Emergency Reserve Trader (**RERT**) Consultation Paper (**Consultation Paper**).

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.

We are pleased to have the opportunity to comment on this Consultation Paper, noting the strong focus on the energy trilemma and particularly the issue of reliability within the National Energy Market (**NEM**). As a starting point, we do not consider that there is a strong rationale for the proposal within the Consultation Paper, noting the AEMC's own Reliability Framework's Review (**Review**) findings that reliability issues are a very minor part of the total quantum of outages faced by consumers within the NEM.

*In that the AEMC stated "in 2016/17, at a wholesale level, 0.00036 per cent unserved energy came from one reliability event that occurred in South Australia on 8 February 2017, where demand was higher than forecast, wind generation was lower than forecast, and thermal generation capacity was reduced due to a few forced outages. This is within the reliability standard. At a wholesale level, there was no other unserved energy recorded due to reliability events for any other region in the NEM."*

While we are cognisant of the changing dynamics of the NEM, particularly with the increasing penetration of renewables, we are also strongly supportive of market signals driving the investment required to support the reliability of the NEM into the future. Any distortionary interventions in that market puts these investments at risk and is then likely to become a self-fulfilling prophecy where delayed investment drives further intervention to again delay that investment. We would argue that the RERT is intended to be an emergency measure and should not be used to cover up perceived deficiencies in fundamental market design.

The proposed changes within the Consultation Paper are being considered at a time when multiple reviews into the design of the market are ongoing, with a goal of improving market signals to drive the required investment in new generation sources or demand response technologies. It appears premature to push for further interventionist powers to be designed into the market against this backdrop.



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We have strong concerns that any changes that would continue to drive, or increase the risk of, market interventions by the market operator would deliver poor outcomes for end-use consumers. Given there is no forecast breach of the reliability standard over the next 10 years within the Reliability Panel's Annual Market Performance Review 2017, we do not consider there is a strong rationale for implementing changes that would increase the quantum of RERT that is procured or that would increase the likelihood of the RERT being triggered.

We do support appropriate RERT governance as being critical to ensuring it is only procured when necessary. As such, we support increased governance measures, including transparency and potentially independent review of decisions relating to procuring and activating RERT by the Australian Energy Regulator (**AER**). We have provided more specific comments in relation to this issue, and the remaining questions and themes explored in the consultation within Appendix A.

If you have any queries about this submission, please contact Chris Streets on (03) 8633 6758 or [CStreets@agl.com.au](mailto:CStreets@agl.com.au).

Yours sincerely,

Elizabeth Molyneux

General Manager Energy Markets Regulation



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## **Question 2 Procurement lead time**

We support a RERT procurement lead time of one year on the basis that a one-year lead time is consistent with the proposed NEG reliability obligation trigger period. Additionally, the increase from nine months to one year is negligible.

We would be concerned with a longer procurement lead time, as under the NEG, the period between three years and one year out from an identified shortfall is the period in which retailers will be seeking to remedy any under-contracting. This could lead to retailers having to compete with AEMO for the same resources, which is likely to distort competition and cause confusion amongst potential providers of products such as demand response who would be approached by both AEMO and retailers.

## **Question 3 Multi-year contracting**

We consider that a longer contracting period of up to three years is likely to increase the risk of high availability payments and ultimately, increased costs to consumers. AEMO should be limited to contracting one year of reserve products with a one-year lead time, so as not to deter market participants from investing in similar capabilities, such as demand response.

However, we acknowledge that certain technologies such as diesel generators, are lower cost over multiple years, and as such multi-year contracting for these technologies could be considered where there are successive years of forecast unserved energy (**USE**). In this scenario, we consider a lead time of one year is appropriate with at least two years to be contracted.

## **Question 4 Operationalisation of the reliability standard**

We do not consider that the market has shown a reduced tolerance for load shedding, which if it were the case, would suggest the NEM requires a means of operationalising the reliability standard in a way that reduces the risk of any USE. Reducing the risk of any USE is simply too costly for the market to bear, particularly at this present time when there is significant community and government pressure to bring energy costs down for all sizes of consumer.

As such, we do not support the aim for a zero USE. Conversely, we do support the fundamental design of the reliability standard, which allows for a relatively marginal but non-zero level of unserved energy, on the basis that the cost of a reliability standard of zero is uneconomically high.

## **Question 5 Appropriateness of the reliability standard**

No compelling evidence has been presented to suggest that end-use customers are willing to face significantly increased costs for increased reliability above the current reliability standard. We acknowledge that the values of customer reliability (**VCR**) will be reconsidered soon, and that this may alter the status quo.

Governments are becoming increasingly interventionist, however the political desire to be seen to be making changes to the market should not alone justify changing the reliability standard or increasing market operator intervention. The reliability panel is entrusted to consider the reliability standard's appropriateness, and we support the established processes it undertakes.



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#### **Question 6 Alternatives to the reliability standard metric**

We consider the reliability standard is the appropriate metric to determine whether RERT, as a reliability mechanism, is triggered. On this basis, we would oppose the introduction of a second reliability metric – one to trigger the RERT and the other applying to the overall reliability framework. In our view, such a change would suggest that there is something inherently wrong with the current assessment of the reliability standard, which has not been shown to be the case.

Additionally, we do not consider that a Loss of Load Probability (**LOLP**) standard would add any benefit to the reliability standard metric, as it seeks only to assess the probability of any load shedding, with no consideration of the magnitude, and whether that magnitude falls within the reliability standard. Once again, this proposal suggests fundamental issues with the reliability standard and the basis on which it is calculated, without providing discernible evidence.

#### **Question 7 Power system security trigger**

The RERT is a reliability mechanism and therefore appropriately triggered by the reliability standard. We do not consider that the RERT, as a reliability mechanism, should be tied to a reliable operating state, which is a power system security measure.

#### **Question 9 Procurement volume**

We would like to see an increase in transparency regarding RERT procurement. The current lack of transparency appears to be driven by the time lag between procurement, triggering, and reporting. During this period, little information is available to the market around the qualitative factors that AEMO considers throughout this process.

To assist in improving transparency, it would be appropriate for the NER to embed some guidance linking the quantum of RERT to be procured with the expected amount required to meet the reliability standard. That said, there is a danger in over-prescription, and a balance between prescription and discretion must be met, to allow for consideration of such factors as cost and availability.

#### **Question 12 Governance and transparency of the RERT**

We consider that independent oversight of the procurement trigger is necessary for both the RERT and the NEG reliability design. Specifically, we support the reliability panel having a greater role in triggering the NEG reliability obligation with AER oversight of that decision. Additionally, AER review of an AEMO decision to procure the RERT and the quantity of that procurement is preferable to the self-reporting that AEMO currently undertakes.

Any increase in transparency around RERT procurement decisions is welcome, particularly around costs. For example, we note that there has been a distinct lack of transparency and analysis of the prior activations of the RERT, except for some details of usage payments.