AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Ms Katy Brady

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

5 October 2018

Dear Katy,

ERC0225 Participant compensation following market suspension

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Draft Rule Determination (draft rule) on participant compensation following market suspension. AGL wholly supports the introduction of participant compensation arrangements for electricity market suspension events and offers the following comments on the draft rule.

AGL supports the application of a framework akin to that for directions, with automatic calculation of payments to be administered by the Australian Energy Market Operator (AEMO), and the use of an independent expert where certain criteria are met.

Additional elements of the draft rule we support include the prevention of double dipping from different compensation schemes, noting cl. 3.15.7(d1) provides that participants will be compensated as Eligible Claimants rather than Directed Participants, as a disincentive to holding out for directions. AGL is also comfortable with the absence of the $5,000 threshold that applies in the directions framework from the draft rule.

The draft rule provides for calculating compensation based on benchmark values, which themselves are calculated annually by AEMO using cost inputs developed for planning purposes. AGL highlights that broad-brush calculations of short run marginal costs (SRMC) are problematic, as each participant's fuel costs will be widely different, and dependent on factors such as start-up costs, spot commodity prices or haulage limits. Additionally, system plan cost inputs may not be accurate and are not frequently updated.

We are particularly concerned with the proposed benchmark values for hydro and batteries, which the AEMC proposes to equate to open-cycle and closed-cycle gas turbine values. For hydro, costs depend on inflows and outflows, and vary significantly throughout the year. For batteries, it is unclear how gas provides a representative benchmark and further, it is difficult to see the value that would be attributable to batteries during a market suspension event.

Despite our concerns with SRMC benchmark calculations, we appreciate that should the benchmark underrepresent actual direct costs, a participant can make a claim for additional compensation to recover the difference between that amount and the automatic compensation amount.

The draft rule provides for compensation for ancillary service providers, calculated at the average benchmark cost multiplied by 0.1. AGL supports making provision for ancillary service providers in the draft rule and supports the proposed calculation of compensation, however it is unlikely these provisions will be used. AGL questions the incentive on AEMO to enable ancillary services in the suspended region/s. During the 2016 System Black event, AEMO did not allow participants in the suspended region to be enabled for frequency control ancillary services (FCAS), to the detriment of those participants. Our question may be beyond the scope of this rule change request, but AGL considers it warrants further investigation should other aspects of the market suspension framework be examined in future.

Finally, AGL maintains its position from the consultation paper that compensation costs should be recovered from any neighbouring region that receives a benefit, and not from the suspended region alone. We appreciate that the AEMC has steered away from this for simplicity, however given market suspension occurs far less frequently than the issuance of directions, we do not consider it would be particularly burdensome to apply in the market suspension compensation framework.

If you have any queries about this submission, please contact Liz Gharghori on (03) 8633 6723 or lgharghori@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation