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

AGL Energy Limited (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. In addition, we continue to be an aggregator and developer of Demand Response (DR) and Distributed Energy Resources (DERs).

We welcome the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Enhancement to the Reliability and Emergency Reserve Trader (RERT) Options Paper (**RERT Options Paper**), specifically the options outlined on the possible RERT procurement trigger and procurement volume linked to a RERT event.

AGL acknowledges and supports the important role that the RERT provides to the market as a 'last resort' reliability of supply measure.¹ However, we continue to question the rationale for the rule change proposal by the Australian Energy Market Operator (AEMO), which seeks to both broaden the RERT framework under a significantly altered risk assessment methodology and delink the RERT from the reliability standard. We understand that AEMO's proposal is based on their assessment that the likelihood of load shedding in the NEM is increasing largely as a result of tightening supply due to the closure of large thermal generation, irrespective of the increasing number of transmission-connected intermittent generation sources and behind the meter DER.

Consistent with our view presented to the Consultation Paper, we do not believe a clear rationale has been presented to demonstrate such a significant shift in RERT scope, assessment and operationalisation. The approach set out in Option 2 and AEMO's supplementary paper, while thorough in its framing of the NEM reliability framework, appears to set up the need for the RERT to become a discretionary 'standing reserve' controlled by AEMO. By design, this approach creates an annually procured alternative market for providers of reserve services, which would result in significant distortions to the energy-only market by exacerbating the perceived supply problem. Under these market conditions, rational providers² would seek to maximum

¹ highlighted by our participation in the NSW Short Notice RERT program and the 2017/18 Long Notice. programs in Victoria and South Australia

² i.e. RERT generators, demand response providers and battery operators etc



returns by offering their services initially to AEMO, with the knowledge that if they are not successful during a RERT procurement round, they can return to the spot price.

Further, while we are cognisant of the transition taking place across the NEM, particularly the increasing penetration of renewables and DER, we are also strongly supportive of market signals driving the investment required to support a reliable NEM. Any distortionary interventions risk jeopardising these investments and would potentially create an interventionist loop which likely leads to further investment delays. To this point, AGL strongly believes the RERT should not be used to address perceived deficiencies in fundamental market design and claims it should be treated as an insurance product are unfounded.

AGL also notes, as has been highlighted by the AEMC's Reliability Panel (the Panel), that "modelling [undertaken by Ernst and & Young on behalf of the Panel] forecasts the system will provide a level of reliability significantly better than the 0.002 per cent reliability standard in all national electricity market regions, for the review period (i.e. the period 1 July 2020 to 1 July 2024)"³.

On this basis, AGL does not support Option 2 as outlined in the RERT Options Paper. However, we consider that RERT governance and transparency remains a market concern, and therefore should be addressed appropriately.

Reflecting on the recent RERT trigger events and the way they have been operationalised, AGL believes that more predictable and transparent elements are required to protect consumers from unnecessary costs and provide market participants with better, accurate and more timely information about RERT processes.

Key to our concerns on AEMO existing processes have been the following:

- discretion on whether and how much to procure under the RERT;
- transparency on the methodology and assumptions used to forecast and trigger a RERT event;
- consideration of the balance between reliability and consumer costs; and
- timely market information about the details of a RERT, where an event has taken place.

Both Options 1 and 3 will provide suitable enhancements to the RERT. Tightening the procurement trigger and volume will address a number of our shared market concerns, by minimising RERT costs, factoring in consumer views on reliability and providing general clarity on the RERT framework. However progressing Option 3 will embed necessary additional prescription into the NER to guide AEMO on RERT operationalisation and time sensitive information dissemination, where it has been triggered. AGL also welcomes the suggestion outlined in the Options Paper to apportion the annualised Unserved Energy (USE) calculation across a monthly basis to better link expected USE within a particular month. We therefore support implementation of Option 3.

AGL also welcome stronger governance arrangements to further strengthen the integrity of the RERT as a last-resorts mechanism. We encourage the AEMC to explore implementing an independent RERT trigger verification function⁴, held by the AER to oversee AEMO decisions to activate the RERT. This function would exist to verify the methodology and decision making associated with RERT activation. In addition, AGL also supports removing the risk of market participant's 'double dipping, whereby the same generation or customer load is offered into the RERT and wholesale demand response.

³ Panel, 2018, Reliability Panel advice on the Enhancement to the Reliability and Emergency Reserve Trader rule change

⁴ Similar to the function proposed under the Energy Security Board's Retailer Reliability Obligation



If you have any queries about this submission, please contact Dan Mascarenhas on (03) 8633 7880 or DMascare@agl.com.au.

Yours sincerely,

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