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Coordination of Generation and Transmission Investment – Access and Charging: Consultation Paper (EPR0073)

AGL Energy (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 welcome the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) Access and Charging Consultation Paper (**ACR**), which seeks to progress several of the recommendations from the final 2017 Coordination of Generation and Transmission Investment Review (**COGATI**).

AGL understands the focus of this ACR is to further develop a package of regulatory reforms to address increasing levels of transmission congestion caused by generators seeking connection in areas of the network where there is, or expected to be, limited capacity to generate and dispatch unimpeded. We note that this is a significant reform work program which will require several periods of detailed stakeholder consultation to ensure that appropriate and balanced reform, if necessary, is progressed. We appreciate the AEMC's proactive engagement efforts to date and the additional information published (Supplementary Paper) outlining some additional details on the proposed three stage reform.

However, AGL is concerned about the proposed policy timetable, the rationale for reform in the current environment, and the scope of the proposed reforms outlined by the ACR. We note the AEMC have set an ambitious deadline to complete the work package's review component by the end of this year, with the aim of staging implementation of the proposed reforms from July 2022 to July 2023. AGL does not believe that this expeditious timetable is practicable in light of other related ongoing reform programs and the level of IT system and contractual changes that are likely to be required.

In addition, AGL notes that the Energy Security Board (**ESB**) is progressing the Integrated System Plan reforms and has recently published the Terms of Reference for its Post 2025 Energy Market Design Review (**EMDR**), which will be presented to the COAG Energy Council by the end of 2020. The EMDR will examine the need for any changes to the existing NEM, or present an alternative market design, ensuring it can deliver a full range of services to customers in line with the National Electricity Objective. We therefore expect that the COGATI and EMDR work programs will overlap in scope and timing, though recommended implementation plans may vary.



AGL considers that the facilitation of these two separate Reviews, both seeking to potentially alter the design and operation of the existing transmission grid and wholesale market, creates significant, yet unquantifiable risk to generation investment and hedging positions over the short term to medium term. While AGL supports both reviews and understands that the AEMC and ESB intend to work closely to deliver their respective work programs and minimise impacts to market operation and liquidity, we believe coordinated consideration must also be had for the AEMC's current reforms and those recently finalised, and the compatibility of each of these pieces against the broader NEM framework and the National Electricity Objective (NEO).

We therefore suggest that the AEMC develop and publish, as its next step in the COGATI Review, a 'mind map' which compares the objectives, implementation dates¹ and interactions across the NEM, and financial and contractual markets for all key projects across its Reliability and Security work programs. Undertaking this assessment will provide stakeholders with a clearer understanding of how market reforms will work with each other and assist the AEMC in demonstrating why the proposed reforms outlined in the ACR are necessary.

Further, noting that the ACR and the EMDR are both at early stages in their Review process, we encourage the AEMC to consider rolling its Review decision making into the EMDR. While there is merit in maintaining separate work programs to design and test specific options and their respective detail, we do not believe that merging the project's decision-making points would create tension or delay the proposed ACR reforms because the AEMC has a strong link to the ESB, and both regulatory institutions report to the COAG Energy Council. This process would therefore enable a considered and complementary approach to the ACR, particularly phase three which seeks to alter generation and transmission access and build arrangements, and is highly dependent on the NEM's market design.

AGL has provided responses and a range of other issues for consideration against the AEMC's targeted questions in Appendix 1. If you have any queries about the submission, please contact Dan Mascarenhas on (03) 8633 7874 or DMascare@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux', written in a cursive style.

Elizabeth Molyneux

General Manager Energy Markets Regulation

¹ or likely implementation plan, where a final rule is to be made.



Appendix 1 – AGL’s Targeted Responses

Question 1: Phasing of Access Reforms

AGL is unable to assess at this time whether the AEMC’s proposed phased approach to access reform is appropriate. Without a clearer understanding of the proposal’s skeleton framework, and its interactions with other existing reforms and the current NER, it is difficult to address this question with certainty.

As noted above, AGL understands that one of the main drivers for the proposal, is to address growing congestion on the transmission network. However, the types of congestion are not clearly defined², nor are the market impacts which may result from the implementation of the proposal reforms.

In addition, a significant amount of wholesale and transmission market reform are currently underway, each seeking different market enhancements or introducing/redefining obligations on market parties. The ESB has also initiated its EMDR to advise the COAG Energy Council on a long-term, fit for purpose NEM, which could apply from 2025. In the context of such regulatory uncertainty and the reform implementation programs that have already commenced, AGL believes it would be more prudent to consider the ACR as part of the EMDR, particularly phase 3 which is reliant on market design.

We encourage the AEMC to develop further details and economic analysis to underpin and outline the costs/benefits of each stage of the proposed reforms, and demonstrate how it would address congestion and coordination issues against the NEO.

Question 2: Dynamic Regional Pricing (DRP)

AGL reinforces the need to maintain deep and liquid contract markets to support investment in the energy sector. Recently however, there has been increased interest from regulatory institutions including the current AEMC Rule Changes, the ESB’s Retail Reliability Obligation and the SA Market Maker obligations. These regulatory reforms each impact on market liquidity in different ways.

The ACR proposes to introduce a DRP during periods of congestion and transmission constraints. While AGL acknowledges that the mechanism will introduce a price signal to generators which reflects the short run operating cost of using the grid at times of congestion, we believe it will also create commercial market risks.

Specifically, while the Supplementary Paper provides some comfort by acknowledging the risks to contract liquidity and necessary further analysis is needed to evaluate the overall impacts, neither paper recognises the contractual market risk that incumbent generators and retailers will face as a result of the likely triggering of ‘change in law’ provisions. AGL believes it could be difficult for market participants to meet their contractual obligations over dispatch intervals where a DRP has been triggered. This is because existing contracts, referenced to a node, will reflect specific hedging positions of each counterparty, neither of which will reflect

² i.e. is congestion being caused by solely by generator connections, interconnector restrictions, a lack of quality system balancing services or a combination? Does this also consider dynamic technical constraints such as those arising from sub-synchronous control interactions, system strength etc.



the price or risk effectively imposed by the DRP. To address this risk, it is likely that commercial contracts will need to be re-negotiated or terminated, and this could have a broad and detrimental on market liquidity and market participant viability.

In addition, market participants may also find it difficult to manage their price basis risk, that is creating a suitable hedge will be challenging when the nodal price is dynamic. AGL encourages the AEMC to explore this risk in greater detail, looking to other domestic and/or international markets for a suitable solution.

More generally, AGL welcomes further detailed examples outlining how the DRP would operate and demonstrating circumstances where the DRP changes over several dispatch intervals. We acknowledge that the penetration of large-scale energy storage, when operating as a load, will largely alleviate grid congestion³ and should therefore be treated as a Market Customer. Whereas, it should receive the DRP when exporting to the grid because it will be contributing to an identified constraint. Similarly, if the energy storage unit is importing, but is located on the wrong side of a constraint, it should be treated as if it is contributing to the congestion and therefore receive the DRP.

Question 3: Information from DRP

AGL welcomes the increased transparency and use of DRP congestion information, arising from the proposed reforms, if DRP is justified and implemented. We believe this information could improve the processes of energy market bodies (including the Australian Energy Market Operator and the Australian Energy Regulator) and transmission operators with respect to transmission planning and regulatory approvals.

We also note that AEMO maintain a Congestion Information Resource (CIR) and update the CIR Guideline at least every three years. Its aim is to *“provide information to Registered Participants to enable them to understand patterns of network congestion and make projections of market outcomes in the presence of network congestion”*⁴. While the design of the proposed DRP remains unclear, we consider that more frequent congestion information would likely provide benefit to generators and the broader market.

Question 4, 5 and 6: Access Reform, TUOS Framework Review and Proposed Implementation Timeframes

As outlined above, AGL does not believe the proposed timeframes are realistic. There are considerable market reforms underway in the transmission and wholesale sectors which should be factored into the development of this project, if it is progressed. Key issues for further consideration includes outstanding or recently finalised reforms, impacts on contract markets, market participant resourcing requirements, IT system design, build and testing, and maintaining cost efficient reform implementation.

Noting the interdependencies of the ACR on the ISP and EMDR with respect to market design, market participant roles and provision of market services⁵, AGL’s strong preference is to merge policy and regulatory decision-making of the projects together, whilst retaining the existing stakeholder engagement approaches

³ Assuming it is on the right side of the congestion.

⁴ [AEMO Congestion Information Resource Guideline - September 2018](#)

⁵ Including an energy market, ancillary services market and the potential for the creation of new system balancing markets.



to work through the various design and implementation options. This would enable the AEMC to focus its examination of the ACR within the boundaries and market design options being considered by the EMDR. It would also support the development of suitable transitional and grandfathering arrangements to protect incumbent generators and the existing contracts market, where a change to access is progressed.

AGL contends however, that generator access to the transmission network must be approached with a holistic lens and therefore requires a comprehensive review of the registrations and TUOS frameworks. The AEMC must also ensure that the NER access and registration frameworks align with jurisdictional licensing arrangements, tying together the essential processes that bring new generation and storage to market.