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2022 Reliability Standard and Settings Review – REL0082

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AGL Response to Reliability Panel 2022 Reliability Standard and Settings Review draft report

AGL Energy (**AGL**) welcomes the opportunity to comment on the Reliability Panel 2022 Reliability Standard and Settings Review draft report (**RSS review**).

AGL is one of Australia's largest integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. AGL is also a significant retailer of energy and telecommunications, providing solutions to around 4.2 million across Australia.

The RSS review considers whether the existing form and level of the reliability standard and settings remain appropriate for the expected market conditions from 1 July 2025 to 30 June 2028. The Panel is guided by the RSS review guidelines and considers wholesale market modelling to assess the appropriateness of the RSS.

Any potential changes to the RSS are a delicate balance between allowing efficient price signals against wholesale price risk for participants. The goal of this balancing act is to ensure reliable supply of energy at the least cost to consumers. We consider the draft report has highlighted the continued challenge of ensuring least cost dispatchable new entrant capacity becomes available over the next decade as large capacity synchronous generators retire. This report identifies two key system reliability issues. Firstly, the increasing shift to Variable Renewable Energy (VRE) generation is altering the generation risk profile of the system and therefore weakening the modelled assumptions when assessing system reliability and the veracity of the reliability standard. Secondly the current Market price signals for new entrant dispatchable capacity may no longer be fit for purpose from 2025.

The draft report does not provide a preferred Panel position, we therefore provide our response to these issues below along with our concerns regarding the Panel's assessment of the Administered Price Cap (APC).

Form of the Reliability Standard

We consider the current form of the reliability standard remains an appropriate metric to assess long term energy adequacy. As the draft report notes this metric has limitations when considering if the reliability settings are appropriately facilitating the necessary capacity to achieve the desired system risk profile. Whilst alternative metrics are available, such as the LOLP, these tools are unlikely to materially improve the reliability panel's ability to address these emerging issues. We should therefore be mindful of the limitations of the USE measure and consider whether additional standards are needed that measure,

and forecast, energy system characteristics that are required to meet the National Electricity Objective as the generation mix changes.

We therefore support the reliability panel's consideration of alternative metrics to assess the reliability of the system. We note that the modelling supporting the USE is predicated on the system largely constituting of synchronous generation. The reliability of these types of plant can be determined largely by endogenous factors which produce a forced outage rate. As these types of generation retire, the system will be replaced in part by VRE. These types of generation capacity are subject to materially different exogenous factors, such as weather, that determine the capacity availability at peak demand periods. As noted in the draft report, the cumulative impact of the replacement of synchronous generation with VRE is a change of the system risk profile over time.

Monitoring the increasing tail risk of reliability risk profile is therefore necessary. However how this assessment alters the standards and settings is unclear. Whilst we appreciate the conditional value at risk (CvaR) is an approach to skewing the current standard, it is unclear if the proposed straw man approach is the solution, or the identification of a broader reliability issue.

This discussion highlights emerging issues of dispatch flexibility and short duration USE events that may require significant ramping requirements. Ultimately these issues are being considered through broader regulatory reform but are far from resolution. We therefore support the Reliability Panel's consideration of how these issues affect reliability. In particular, we consider the reliability panel should consider the following:

1. Is there a desired aggregate generation risk profile that better meets the NEO? Should tail risk be limited by balancing the system with more dispatchable generation or generation sources that are not subject to the same exogenous factors?
2. If so, how can the standards and settings facilitate this? Are there alternative mechanisms that may more efficiently facilitate the desired risk profile?

The level of the Reliability Standard

We support the reliability Panel's view that the existing USE should be preserved based on the IES modelling base case. We note that in the IES modelling the efficient level of reliability only shifts materially from the base case level under the high VCR sensitivity. The high VCR is when a short duration event occurs. Thereby the customer impact to energy ratio is higher. We do not consider customers perceive these types of events as a ratio but rather in absolute terms. This creates the false inference that a customer would prefer a long duration event rather than a shorter one. We therefore consider the Reliability Panel should only consider the base case modelling when assessing if a change is needed to the standard.

Market Price Cap and Cumulative Price Threshold

The draft report includes the IES modelling outcomes for the MPC/CPT combinations. As outlined in the report, there is a potential range for the MPC of around $21,000/MWh to $29,000/MWh and a corresponding CPT of $1,359,100 (corresponding to 7.5 hours at the existing MPC) and $4,176,000 (corresponding to 12 hours at a maximum MPC of $29,000/MWh).

Whilst we appreciate the IES modelling is one of several factors to determine an appropriate level of the MPC/CPT, the modelled outcomes provide a strong indication that the current MPC/CPT will be materially inadequate. In contrast to previous RSS assessment periods, with the retirement of significant dispatchable capacity, the 2025 to 2028 assessment period justifiably has a strong focus on ensuring new generation capacity is available to continue to meet the reliability standard.

We support the adjustment of the MPC/CPT to facilitate the most efficient least cost generation available to meet the reliability standard.

Administered Price Cap

We note the reliability Panel considers the current APC at $300/MWh remains broadly appropriate for the period of 1 July 2025 to 30 June 2028. This assessment is based on the forecast fall in coal and gas input costs during the 2025 to 2028 period.

Whilst we appreciate the Panel's assessment that the current energy cost issues are temporary. The recent energy price events and the flow on implication in the NEM, demonstrate the IES forecast changes in input costs must consider how high input price events affect the NEM.

The APC compensation framework is one way to mitigate the risk to generators during this high input price event. However, this should not be relied upon as the main safeguard against these price events. The reliability panel should consider if there are reasonable adjustments to the APC that may largely preserve market led resolutions of efficient dispatch of generation during an APC period caused by high fuel prices.

The recent June 2022 APC event has also demonstrated a misalignment with between administered Electricity and Gas price caps in the respective markets. The administered gas price cap meant that the operating cost of gas-powered generation was significantly higher than the APC of $300 MWh. Whilst we appreciate the underlying cause of the market withdrawal of generation capacity during this period was likely due to additional commercial factors, this issue highlights a broader issue with how price caps are placed on interconnected markets, and the flow on implications on price control frameworks such as the APC. The Reliability Panel should consider whether these price controls should be complimentary to avoid this price misalignment. Should the panel consider this is necessary, this will likely require changes to the National Gas Rules. The Panel should nonetheless consider whether a recommendation should be made to the AEMC to make these changes.

If you have any queries about this submission, please contact Kyle Auret on (03) 8633 6854 or KAuret@agl.com.au.

Yours sincerely,

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