



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

Review of the Retailer Reliability Obligation – EPR0091

Submission via AEMC website

5 May 2023

AGL Response to Retailer Reliability Review consultation paper

AGL Energy (AGL) welcomes the opportunity to comment on the AEMC Review of the Retailer Reliability Obligation (RRO) consultation paper (consultation paper).

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 AEMC consultation paper is a review of the operational aspects of the RRO. Our submission sets out below proposed improvements to the T-1 Trigger and the Market Liquidity Obligation (MLO) framework.

Process for the T-1 trigger

The retailer regulatory implications of a T-1 trigger are significant. Whilst the policy intention is that retailers will procure the contracts necessary to meet the RRO from when the T-3 instrument is triggered, in reality it is at the time the ESOO declares the T-1 reliability gap that retailers will commence this procurement process in earnest and incur elevated costs to meet contract requirements.

The AEMC must be mindful that during this critical period (from when the ESOO identifies the T-1 reliability gap to the RRO contract day) the framework will need to balance the importance of correctly triggering the RRO and the regulatory certainty necessary to not unduly penalise retailers that have incurred the regulatory costs of meeting the RRO.

We note that AEMO can only withdraw a request if there is a material error in the reliability forecast prior to the AER making its decision on whether to make the reliability instrument. Recent experience has shown that only some of the incorrect input assumptions were identified as errors at the time of the AER assessment of the AEMO recommendation, which therefore, led to the T-1 instrument still being issued.

The focus should therefore be on how the T-1 reliability gap can most accurately be forecast at the time of the ESOO publication and, at the latest, when the AER triggers the T-1 instrument. It is a fundamental failure of the RRO framework if the T-1 instrument is triggered unnecessarily, particularly in circumstances where the input assumptions of the reliability gap forecast could be determined as incorrect through a reasonable course of inquiry.

As we observed in the recent SA 2024 T-1 declaration, there were significant industry concerns regarding the accuracy of forecast generation retirements and the availability of new projects during the reliability gap period. Whilst industry proponents knew the assumptions were questionable, there was no evidence to demonstrate this

unless the asset owner or developer came forward to provide the required information. In the case of SA 2024 T-1 assessment, as noted above only some of the relevant parties came forward to raise concerns.

The issue is that the traditional onus on the developer or registered participant to inform AEMO for the ESOO input assumptions falls short of the robust assessment of the validity of the input assumptions required for the reliability gap forecast. Given the regulatory implications of the reliability gap forecast, material input assumptions must be proactively tested and verified by AEMO or the AER.

We note that AEMO has in part addressed this issue through improvements to the AEMO RRO gap forecasting methodology to now include committed* projects. Whilst these changes are welcomed, additional measures are needed.

In addition to the preliminary information provided through established reporting channels, such as the generator survey and notice of generator closure, AEMO should be required to verify the information provided by stakeholders when the input assumption, or collection of assumptions, are material to the reliability gap forecast. This is particularly important for two key generator availability inputs; status of projects, and the retirement and mothballing of existing generation.

Further inquiry with the asset owners is necessary given there may be critical information not captured through the established reporting channels. This may include a current review by project developers of changes to project status (such as improvements project milestones) or the pending amendment to retirement/mothballing decisions.

Where questions still remain following the publication of the ESOO and the T-1 reliability gap forecast. The AER should then be required to make formal inquiries through issuing compulsory information notices to the relevant parties.

Marginal breaches of the Interim Reliability Measure

Currently, a breach of the Interim reliability measure is an automatic regulatory trigger regardless of the size of the reliability gap. We consider additional discretion should be provided to the AER when there is a marginal breach of the measure. In these circumstances, the AER should be required to determine if the gap is reasonably likely to occur, based on the input assumptions. In some cases, whilst the input assumptions are defined to meet forecasting certainty and consistency, a more detailed assessment will establish that these assumptions are not appropriate given the circumstances. This may be particularly important when new and improved types of generation and storage technologies, such as batteries, provide a greater level of certainty in the connection process than is traditionally considered under the reliability gap forecasting methodology.

Should changes be made to the MLO?

MLO Generation calculation

The determination of market generators and generator capacity in a region for the MLO should only include scheduled generators. We do not consider it is appropriate to include semi-scheduled generation and non-scheduled generation when determining the MLO generators and the associated obligations. MLO products are not suitable to be underwritten exclusively by these other types of generation. Until such time that MLO products evolve to appropriately reflect the physical hedging capabilities of these types of generators, the current MLO generator classification should remain unchanged.



Further, the capacity calculation to establish an MLO generator needs to be amended under the rules to reflect the generation capacity of the generator group at the time of the reliability gap period. The rules should therefore be amended to not include generator capacity that is due to retire prior to the reliability gap period. This current requirement appears to be an oversight of the original framework design and should therefore be clarified.

MLO bid requirement after AEMO T-1 instrument recommendation

The MLO also currently requires MLO generators to provide both a bid and offer during the MLO trading window. Whilst this may be broadly appropriate to improve market liquidity during normal trading periods, the requirement for the MLO generator to bid creates negative market outcomes when the T-1 instrument recommendation is published, and ultimately declared. Whilst retailers during this period may require access to MLO contracts through offers from MLO generators, there is an incentive for speculative sellers to access the MLO bids to take advantage of the heightened regulatory induced trading period (up to the contract day).

This causes churn in the market that is not representative of retailer-generator trading activity. In effect, the MLO bidding requirement forces MLO generators to buy contracts that do not facilitate retailer activity to meet the RRO contract requirement during this critical period. We recommend the requirement for MLO generators to bid during this particular period be lifted as it unnecessarily penalises MLO generators.

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

Yours sincerely,

Liz Gharghori

Senior Manager Wholesale Markets Regulation