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2026 Reliability Standard and Settings Review Issues Paper

AGL Energy (**AGL**) welcomes the opportunity to respond to the 2026 Reliability Standard and Settings Review (**RSSR**) Issues Paper, noting the RSSR will determine the level of the reliability standard and the corresponding market settings that will apply from 1 July 2028 to 30 June 2032.

About AGL

At AGL, we believe energy makes life better and are passionate about powering the way Australians live, move, and work. Proudly Australian for more than 185 years, AGL supplies around 4.5[1] million energy, telecommunications, and Netflix customer services. AGL is committed to providing our customers simple, fair, and accessible essential services as they decarbonise and electrify the way they live, work, and move.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan. We'll continue to innovate in energy and other essential services to enhance the way Australians live, and to help preserve the world around us for future generations.

Assessment framework

The RSSR Issues Paper sets out the Reliability Panel's assessment framework, as outlined in the National Electricity Rules (**NER**) and 2021 RSS Guidelines (**Guidelines**). Critically, the Issues Paper notes that the Reliability Panel will only recommend changes to the standard or settings if there is a reasonable likelihood that the changes would better contribute to the achievement of the National Electricity Objective (**NEO**) than the existing standard or settings.

Additionally, the Guidelines require the Reliability Panel to determine the standard and settings that:

- allow efficient price signals while managing price risk
- deliver a level of reliability consistent with the value placed on that reliability by customers
- provide a predictable and flexible regulatory framework.

AGL considers the current form of the reliability standard and settings continue to reflect the criteria in the Guidelines and that changes to the standards or settings are unlikely to better achieve the NEO. Our view is based on the points outlined here.

[1] Services to customers number is as at 31 December 2024.

Market Price Cap

We agree with much of the Issues Paper commentary on the Market Price Cap (**MPC**) and the critical role the MPC plays in providing an efficient price signal to guide the right investment decisions. In particular, we agree with the Reliability Panel's assessment that a lower MPC will not necessarily lead to lower average consumer costs, nor does a higher MPC necessarily lead to higher costs. Notwithstanding this, the Issues Paper questions whether the introduction and continuation of government investment schemes means that changes to the MPC should be considered (consultation question 7). We interpret this question as asking whether the existence of government investment schemes, which can be seen as reliability lever, are a reason to lower to the MPC.

AGL's view is that government investment schemes, particularly those that will have effect over the period 1 July 2028 to 30 June 2032, should not form the basis of a recommendation or decision to reduce the MPC. There are several reasons for this:

- Reducing the MPC on the basis of the existence of government schemes would represent a significant departure from the enduring purpose of the MPC, which is not only to act as an energy scarcity signal to drive efficient investment decisions but also to drive efficient NEM operation by encouraging existing generation to be available to meet system requirements.
- Government investment programs do not seek to meet reliability objectives as the market price settings, instead they are generally aimed at specific generation targets, without a direct correlation to reliability outcomes. The price settings need to ensure that backstop remains to support marginal generation required to meet reliability targets. Reducing the MPC in response to government schemes would likely have the effect of increasing the payments made to participants under these schemes, shifting costs 'out of market', but with the overall effect of moving costs from one forum to another.
- Reducing the MPC would directly reduce participant spot market income, which would be compounded indirectly by reducing forward contract prices. In other words, it would diminish market-based investment signals and drive participants to invest only where they receive government support.
- Although government underwriting and investment programs have been developed in to provide additional revenue for generation to support government policies, any underwriting schemes should be encouraged to do the least work possible - with underlying investment and operational availability driven by the market settings.
- Finally, governments are subject to change, which means government schemes can be limited in their reach and in their ability to provide long-term investment certainty to National Electricity Market (**NEM**) participants who are not direct support recipients. We need market settings that provide long-term investment signals to all market participants, irrespective of the NEM jurisdiction they operate in and the schemes they may be able to participate in over varied time periods.

In further consider changes to the MPC, consultation question 7 asks whether the introduction of new markets or system security enablement approaches would mean a change to the MPC is required. We do not consider this necessary in the current RSSR.

Firstly, it is unlikely that new market services would be established within the period 1 July 2028 to 30 June 2032, as establishing a new market service takes years of systems investment, planning, and testing. Add to this, the AEMC's recent Draft Determination to not introduce an inertia spot market, where inertia has long been one of the primary 'candidates' out of the broader pool of system services that would warrant a real-time 'market value' being placed on it in the same way as contingency frequency control ancillary services (**FCAS**). Should additional market services emerge in future, it may be appropriate to consider the MPC with respect to those services, consistent with the way the MPC has been set with consideration of FCAS alongside the energy price.

Secondly, and as the Issues Paper notes in Appendix A, '[p]ower system reliability in the NEM is distinct from power system security', where reliability is having sufficient generation capacity to meet supply needs, while security is being able to operate the power system within defined technical limits. The Issues Paper is clear that the Reliability Panel's focus in the RSSR is limited to reliability. Couple this with the fact that system security enablement approaches over the 1 July 2028 to 30 June 2032 period are likely to be driven by the Improving Security Framework (**ISF**) rules, which take the procurement of system security services out of market. Accordingly, there is no driver to amend the MPC, which acts as an energy price scarcity signal.

Cumulative Price Threshold

Inherently tied to the MPC, the Cumulative Price Threshold (**CPT**) also acts to manage participant price risk exposure and as an investment signal. Critically, as the Issues Paper notes, the CPT must be set high enough to incentivise investment in long-duration storage as these assets will be critical to maintaining system reliability as exiting plant is largely replaced by variable renewable energy. On this basis, AGL would not support a reduction in the CPT, or a change in its formulation that would diminish its efficacy as a market signal (consultation question 9).

Market Floor Price

Consultation question 8 asks the extent to which the Market Floor Price (**MFP**) has a role to play in mitigating the risk of Minimum System Load (**MSL**) events and whether this warrants further consideration beyond the RSSR. AGL suggests that there is further work to be done here and that this question can be examined through the rule change request recently lodged by the Clean Energy Council to introduce a MSL reserve service as a new market ancillary service. AGL does not yet have a view on whether a new market ancillary service is the right answer and whether this is preferable to employing the MFP as a mechanism to manage MSL conditions, but we welcome the rule change process as an appropriate forum to consider this further.

NEM Review

We note that in November 2024, the Australian Government announced a review of the NEM wholesale market settings by an independent expert panel (**Expert Panel**). The purpose of the review is to recommend wholesale market settings to promote investment in firmed, renewable generation and storage capacity in the NEM following the conclusion of Capacity Investment Scheme (**CIS**) tenders in 2027.

Although the Expert Panel is yet to realise its recommendations, we understand that they have endorsed the broad role of the current NEM market price settings to continue to drive investment in new generation.

AGL agrees with the Panel that the current design of the NEM is working relatively well to support the energy transition and is a good base to work from to drive investment in the right generation mix of the future. We also consider there is merit in leveraging contracting and derivatives markets to support investment, but there may be limits to this approach – some revenue top up may still be required for some generation types.

For example, we expect that under the current NEM design, firming generation may have lumpy revenues, with strong returns in some periods and lower returns in other periods, largely dependent on weather but also other market conditions. As an alternate or additional option, a proposal for 'firming certificates' could provide a separate generator revenue stream, smoothing out generator revenues, reducing investment risk, and reducing volatility in consumer pricing.

Renewable generation may also require some additional incentives once relatively high penetrations are achieved after the CIS. However, certificate schemes (i.e. an extension a RET certificate model) may not be appropriate for renewables in the future. At higher renewable penetrations, certificate prices need to be very significant to continue to bring new renewables to market. Other approaches may therefore need to be considered, possibly leveraging the government's new Guarantee of Origin scheme.

Regardless, it remains our view that the primary mechanism for new entrant investment should remain the current market settings framework, which support the contracting and derivatives market that helps to derisk investment and support reliability and security objectives in the NEM at lowest cost.

In this context, the Reliability Panel should be encouraged to retain the framework for reliability and investment provided by the existing market settings, which would allow any addition reforms or investment mechanism to do the least work necessary to provide any revenue top ups or meet additional policy requirements as dictated by government from time to time. This will provide long-term market stability and support the concept of using the existing NEM structure as a solid base for any additional reforms.

If you have queries about this submission, please contact Aleks Smits, Senior Manager Policy, at ASmits@agl.com.au.

Yours sincerely,

Ralph Griffiths

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