

A few
words.

27 May 2016

Leah Ross
Senior Advisor
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms Ross

AEMC Draft Rule Determination—Extension of the Reliability and Emergency Reserve Trader (RERT) Rule 2016

AGL Energy Ltd (AGL) welcomes the opportunity to comment on the AEMC's draft determination regarding COAG's rule change request on the Reliability and Emergency Reserve Trader Rule (the proposed rule).

AGL is one of Australia's leading integrated energy companies and 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, providing energy solutions to over 3.7 million customers throughout eastern Australia.

AGL agrees with the AEMC that market conditions are uncertain and that this may have an impact on reliability and security of supply. However, it considers that a more comprehensive assessment of measures is required, rather than just extending the RERT.

In the event that the RERT is extended, AGL considers that a further three year extension is more appropriate than prolonging the arrangements indefinitely. AGL also considers that it would be detrimental to reduce the RERT contracting timeframe to ten weeks from the identification of a reserve shortfall.

Extension of RERT Arrangements

While we support in principle the safety-net provisions, AGL considers that a three year extension is more fitting because it is difficult to justify an indefinite extension, such as being proposed, of a mechanism that has never actually been used.

Furthermore, AGL considers that the impending expiry of the RERT should be used as an opportunity to look at measures to deal with the broader issues of reliability and supply. The changing generation mix especially in South Australia raises questions about the reliability and security of electricity supply going forward, which cannot be dealt with by the RERT arrangements alone, as it does not provide a meaningful long term investment signal.

Reduction of period between contracting and projected reserve shortfall

As noted, AGL is opposed to reducing the contracting timeframe to ten weeks before the projected reserve shortfall, as it will limit the types of providers able to offer RERT services. This is because most entities will not commit significant costs in preparing for a RERT event until they have secured the RERT contract. Consequently, if the RERT contract

cannot be secured until ten weeks before the projected reserve shortfall, it will be difficult for retired or mothballed generation or even some large customers to be ready to provide RERT within that timeframe.

Moreover, AGL considers that the distortionary impact of the RERT on the market is limited and hence, not a strong enough rationale for significantly restricting the contracting period. Reserve contracts have only been entered into on three occasions and on none of those occasions were the reserves dispatched. Therefore, it is difficult to see these arrangements significantly distorting market settings such as the market price cap, incentivising the withdrawal, or otherwise, of capacity from the NEM and the creation of a secondary market or even discouraging demand side participation. Therefore, AGL considers that a more measured response may be to reduce the contracting period to six months from the projected shortfall date. This timeframe would provide ample time for participants to develop their own response to the projected shortfall without creating significant distortions to the market, whilst ensuring that the full array of potential RERT providers have the opportunity to enter into RERT arrangements if required.

Conclusion

In conclusion, AGL is broadly supportive of COAG's proposed three year extension of the RERT arrangements - rather than prolonging the arrangements indefinitely. However, AGL considers that a much broader review is required to determine what measures are required to ensure a reliable and secure transformation of the sector overall.

In addition, AGL does not consider that reducing the contracting timeframe to ten weeks is warranted as the distortionary effects of the RERT are limited and such an approach restricts the full range of participants from potentially providing RERT services. If the shortened timeframe is introduced, then there is further justification to continue looking more broadly at other measures, as there may be limited opportunities for supply side reserves.

If you have any queries about the submission or require further information, please contact Josynta Singh at jsingh@agl.com.au or on 03 8633 6628.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux
Manager Wholesale Markets Regulation
AGL Energy Ltd