

A few
words.

21 June 2013

Neville Henderson
Reliability Panel
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Henderson

Issues Paper – Reliability Standard and Settings Review

Introduction

AGL Energy Ltd (AGL) welcomes the opportunity to make a submission in response to the Reliability Panel's (the Panel's) Issues Paper: Reliability Standards and Settings Review released on 9 May 2013.

AGL operates across the energy supply chain in the National Electricity Market (NEM) and has investments in energy retailing – with over 3.5 million customers, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.

We are supportive of the Panel's review of Reliability Standards and Settings and appreciate the Panel's active engagement of market participants in this review.

Reliability Standard

Form and Level of the Reliability Standard

We agree with the Panel that the current form and level of the Reliability Standard is appropriate. There doesn't appear to be any signal in the current market environment, that would support departing from the maximum permissible unserved energy (USE) as the measure of reliability. The current level at 0.0002% USE appears to be a sufficient level for delivering reliable capacity and adequate generation investment in the NEM. We do not see any benefit in tightening the standard from 1 July 2016.

Reliability Settings

We don't believe that the Reliability Settings require any changes for the reasons outlined below.

Market Price Cap (MPC)

We believe that the current level of the MPC and its indexation is suitable to meet the Reliability Standard. This is demonstrated by the fact that the Reliability Standard has only been breached a couple of times in the last ten years¹. Furthermore, we do not believe

¹ AEMC, Reliability Panel, Issues paper: Reliability Standards and Settings Review, 9 May 2013, p.5.

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
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that an increase in the MPC will stimulate investment in the current market environment; therefore an increase in the MPC will deliver no real benefit. Moreover an increase in the MPC will raise the financial exposure of market participants.

Cumulative Price Threshold (CPT)

We believe that the current value and form of indexation of the CPT is also appropriate to meet the Reliability Standard. The key role of the CPT is to minimise the financial risk faced by market participants. We believe that the current level is adequate in minimising this risk. Any relaxing of the CPT would increase the financial exposure faced by market participants.

Market Price Floor (MPF)

The purpose of the MPF is to incentivise generator offloading. AGL believes that the current MPF sufficiently incentivises generators to offload at negative price periods. Accordingly, AGL does not consider that the MPF should be changed.

Value of Customer Reliability (VCR)

AGL broadly supports the principle of VCR. However there are difficulties in determining an accurate measure of VCR and any changes to the Reliability Settings and Standards will have consequences for market participants. Therefore, AGL suggests that caution should be exercised before taking it into account in determining the Reliability Standard and Settings.

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,



Simon Camroux

Manager Wholesale Markets Regulation

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