

A few
words.

29 November 2013

John Pierce
Australian Electricity Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Consultation Paper-Linking the Reliability Settings with the Value of Customer Reliability (VCR)

AGL Energy Ltd (AGL) welcomes the opportunity to make a submission in response to the consultation paper regarding linking the Reliability Settings (Settings) with the VCR (the Paper).

AGL is one of Australia's largest vertically integrated retailers of electricity with more than two million customers and substantial generation capacity in the National Electricity Market (NEM). Hence it would be impacted by any changes to the Settings.

AGL believes that the current Settings are appropriate and does not consider that there is a need for change or that there will be benefits delivered by making changes to the current Settings. Further, linking the Settings with the VCR is unlikely to have the desired effect, given the current oversupply in generation capacity coupled with the decline in peak demand. The other major shortcoming we see with this proposal is the difficulties in obtaining an accurate measure of customer reliability through surveys or modelling.

Given these issues, AGL considers that a cost/benefit analysis should be undertaken before any changes are considered to the current framework.

AGL's additional comments in relation to each option are set out as follows:

Option 1: Market Price Cap (MPC) equivalent to VCR

AGL considers that this option would create uncertainty and volatility in the physical and contract markets if the MPC could be adjusted in the event that the VCR is incorrect.

Option 2: Cross-Checking the Reliability Standard with the VCR

We are supportive that this option proposes that the MPC would still be based on the Reliability Standard. However, this option would also create uncertainty in the market if the MPC subsequently needed to be adjusted to reflect the VCR.

Option 3: MPC equal to VCR only in periods of scarcity

AGL does not support this option as it could create volatility in the market. If an MPC only applies in defined periods of scarcity, there is a risk of extreme prices occurring outside the defined periods which will not be capped, which could expose participants to an unacceptable level of risk.

- > 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
- > Being selected as a constituent of the FTSE4Good Index Series

Option 4: Different levels of VCR offered into dispatch

AGL considers that the metering difficulties with grouping customers according to their VCR make this option impractical and costly.

In conclusion, AGL is supportive of the current Reliability Settings and does not consider that there is a need, or that a strong case has been made, for change. Further, linking the Settings to the VCR could create additional uncertainty and volatility in the market. Therefore, we would argue that the existing framework should not be changed but if any changes were pursued a full cost/benefit analysis should be undertaken to make clear the issues associated with doing so.

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

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