



**May 30 2012**

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235  
AEMC REF: EMO0025

Submitted electronically

Dear Chairman

### **Strategic Market Priorities 2013**

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Strategic Market Priorities 2013 Discussion Paper.

AGL operates across the energy supply chain and has investments in energy retailing, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.

In response to the Discussion Paper AGL provides the following specific comments.

#### **Proposed consumer priority**

AGL wholly supports this priority particularly the notion that 'effective consumer participation can contribute to a more efficient market and help consumers manage how much they spend on their electricity'. AGL believes that the key to achieving these priorities include:

- the removal of retail price regulation;
- market led and competitive metering services;
- introduction of flexible pricing approaches, noting the need for appropriate safeguards for hardship customers; and
- mechanisms to allow customers to actively and cost effectively participate in the market.

On the issue of the AEMC Power of Choice recommendations, AGL considers that adoption of an enhanced demand response mechanism may allow customers to be more involved in the electricity market by providing a greater share of the benefits. In addition, the introduction of third parties into both the metering and demand side space has the potential to increase competition and creative solutions to the benefit of customers.

It is not yet clear, however, what flow on impacts for wholesale electricity market generators will occur with this approach, particularly in relation to the shaving of peak demand that peaking plant generators rely on. It is likely that whether such impacts are realised will be contingent on the extent to which this option is taken up by customers.



AGL considers that the framing of this mechanism needs to ensure that there are true economic benefits delivered from its implementation and that it does not merely result in an inefficient transfer of wealth between parties.

### **Proposed gas priority**

Whilst AGL generally believes that market reviews are useful in identifying weaknesses from a rules or market design point of view, the looming problem in Australia is one of market tightening and rising prices. This is a fundamental and structural issue of adequacy of supply for the domestic market. This is not a market design issue or an issue that lends itself to a regulatory solution. In AGL's view, this is a commercial issue and one that requires an overall policy response by all levels of government that encourages further supply or removes hindrances to gas production.

In view of the above perspectives put forward, AGL questions whether there is much to be identified by way of policy recommendations, other than the removal of obstacles to foster supply, that will emerge from this scoping study. We allude to the numerous other reviews currently underway, including the recent announcement by the the new Federal Minister for Energy and Resources to conduct a supply/demand study of the Australian gas market through the joint efforts of the Bureau of Resources and Energy Economics and the Department of Resources Energy and Tourism.

AGL will nonetheless participate in the AEMC workshop to be held in Sydney on 31 May with a view to contributing to an understanding of the key issue facing the gas industry.

### **Proposed market priority**

Currently, wholesale electricity prices are low – as a result of demand reductions attributable to improved energy efficiency, the high Australian dollar, and higher retail prices due to increased network costs; and greater volumes of low/zero short-run marginal cost renewable energy.

Additionally, because of changing market circumstances, there is also a significant oversupply of baseload generation capacity which is likely to continue in the medium term.

These conditions raise a number of issues regarding the sustainability of the National Electricity Market (NEM), including:

- Does the NEM design provide sufficient revenue for market participants?;
- Are there are sufficient incentives for market participants to eventually retire surplus to needs generation capacity from the market?; and
- should other market designs be considered?.

In light of the aforementioned issues, AGL considers that these are questions that require further consideration.

Additionally, and potentially outside of the AEMC's sphere of influence, possible changes to existing policies such as the Renewable Energy Target and the Clean Energy Future package of measures will likely have significant wholesale electricity market flow on effects, particularly in relation to investor confidence and decision making. From AGL's perspective the importance of consistent policies and measures cannot be undervalued.

Finally, AGL supports the view – as stated in the AEMC's workshop summary paper – that recent conclusions to work conducted by the AEMC, specifically The Power of Choice Review, The Transmission Framework Review and the Potential Generator Market in the NEM rule change proposal request – if perpetuated, run the risk of culminating in an environment of 'reform with no end in sight'. Accordingly, AGL considers that the onus is on the AEMC to be timely in its work and definitive in its conclusions in order to dismiss this possible outcome eventuating.



Should you have any questions on issues raised in this submission, please contact me at scamroux@agl.com.au or (03) 8633 6967.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux', is positioned below the text 'Yours sincerely,'.

**Simon Camroux**  
Manager Wholesale Markets Regulation