



AGL Energy Limited
ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Dr Kerry Schott AO

Chair, Energy Security Board

Submitted by email: info@esb.org.au

4 October 2019

Dear Dr Schott,

Response to Post 2025 market design issues paper

AGL Energy (**AGL**) welcomes the opportunity to make a submission in response to the Energy Security Board's (**ESB**) Post 2025 Market Design Issues Paper (**Issues Paper**).

AGL is committed to meeting the needs of its energy customers. AGL is one of Australia's largest integrated energy companies and the 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 currently has \$1.9 billion of new energy supply projects under construction and \$1.5 billion of additional projects subject to feasibility, comprising pumped hydro, gas firming, solar, and wind generation projects, as well as upgrades to coal-fired power stations and a proposal to build a gas import jetty. We are also looking at behind-the-meter orchestration of distributed energy resources through initiatives such as our Virtual Power Plant to capture value for our customers from services they can provide to the grid.

AGL is also a significant retailer of energy, providing energy solutions to around 3.7 million customers throughout Australia. We are leaders in driving innovative solutions for our customers, including the development of new products and services that utilise distributed energy resources.

An opportunity to take stock

We support the Post 2025 Market Design Project (**Project**), which provides an opportunity to take stock of the evolution of the NEM market against key trends, and ensure the market is well placed to address challenges in the long term. Chief amongst these challenges is the need for ongoing investment to ensure reliable and affordable power during the transition to new generation.

The Project is occurring during a period of significant reform within the energy sector where digitisation is providing consumers improved choices and experiences, falling renewable and storage technology costs are encouraging affordable and sustainable energy supply, and government and industry are seeking to establish the right policy frameworks to better deliver consumers and industries energy needs. The Issues Paper has identified many of the issues that need to be addressed to deliver this future.

The principal value of the Project is therefore in assessing whether there are gaps in these efforts, identifying dependencies between major initiatives, and prioritising key reforms that maximise long-term benefit to customers. In AGL's view the key issue currently facing the market is the need for new



dispatchable investment to secure good price and reliability outcomes. We will return to the implications of this for market design below, though would indicate here that it is important for this Project to take due account of the strengths of the current market design, and the amount of policy change occurring both within and outside market processes. This suggests a preference for carefully evolving and incrementally adapting current market design.

In view of this we agree strongly with the comments in the review that it is important that supply side responses are not delayed as a result of this project. In this respect, AGL welcomes the indication that any changes would need to be well flagged and consulted so as not to add to investment risk.

Forward planning is however necessary to properly account for the long-term imperative set by the National Electricity Objective (NEO), which requires all decisions to promote efficient investment in, and efficient operation and use of energy services for the long-term interests of customers.

Analytic Approach

We consider the analytic approach outlined in the Issues Paper to be sound. The scenarios put forward present an appropriate range of future market conditions, aligned with scenarios used for other key market planning documents such as the Integrated System Plan (ISP) and Electricity Statement of Opportunities (ESOO). We also welcome analysis of overseas market approaches, along with the recognition that the unique conditions of the NEM will be taken into account in drawing lessons from these.

We welcome the commitment to consult extensively on modelling undertaken as part of the Project. It will be important to model the base case of the NEM in 2025 carefully, particularly how current reforms in progress are characterised.

We support the broad criteria for assessment and draw particular attention to measures of transparency and simplicity, as it will be critical that the benefits to consumers of any proposed changes can be clearly understood and explained. There needs to be a clear line of sight between the problem being addressed and any proposed measures.

Priorities for attention in this Project

The five dimensions of opportunities and challenges for the NEM are well articulated. Together they reflect a broad range of issues, which have already been well outlined in the AEMC's *Strategic Priorities for the Energy Sector* consultation and the ESB's *Strategic Energy Plan*.

The Issues Paper also identifies the considerable amount of work by energy market bodies and industry that has been undertaken and is in process to address many of these issues.

As indicated above the key potential gap – to be further tested in this process – is in the area of investment signals to ensure reliability. Over the coming decades, significant investment in electricity generation will be required to replace aging assets. By some estimates, over \$200 billion of investment in new electricity technologies will be required to replace aging assets, comprising \$130 billion at grid-scale and \$70 billion 'behind the meter'. Such a major investment pathway represents a huge opportunity for the Australian economy.

There are immediate requirements for dispatchable generation in the next few years which will need to be resolved within current market and policy parameters. Nevertheless, given the scale of the future transition, and some of the policy uncertainties involved, it is an open question whether adjustments to market arrangements could better provide the requisite investment signals.



In doing so, adjustments within the parameters of current market arrangements should be considered alongside any new proposals to consider additional streams of value. A key issue will be to assess how any new arrangements would interact with the energy market to produce the best consumer outcomes.

Issues relating to the integration of variable renewables and distributed energy are critically important and challenging; in each area we envisage the extension of current programs of work addressing those issues and the risks raised.

This Project should prioritise assessment of any dependencies between these existing processes and any proposed new market features. For example, there is ongoing work to address the provision of ancillary market services for grid stability, such as frequency control and inertia, and these would have strong inter-relationships with approaches to incentivise dispatchable energy. Similarly, the latter objective would have strong relationships with the work stream looking at the Coordination of Generation and Transmission Investment (COGATI). The Australian Energy Council (AEC) has recently published a report¹ from KPMG outlining a framework for assessing relationships between existing reforms, and that approach warrants consideration more broadly.

More broadly, the emphasis on driving innovation to the benefit of consumers is strongly endorsed: in AGL's view this should be a critical consideration in assessing the ongoing implementation of consumer price regulation, encouraging new technologies across the energy supply chain both distributed and at utility scale, and in efforts to modernise distribution networks (as highlighted by the AEMC's *Integrating distributed energy resources for the grid of the future* report).

AGL will continue to engage on these challenges work with the ESB and other stakeholders to ensure the future NEM that meets the needs of our customers, and the broader community. We look forward to further opportunities to provide input into the ESB Post 2025 Market Design Project.

Should you have any questions in relation to this submission, please contact Aleks Smits (Manager Policy & Strategy) on 03 8633 7146 or myself on 03 8633 6514.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Barry Sterland', written in a cursive style.

Barry Sterland

GM Policy & Strategy, AGL Energy

¹ KPMG, *Coordinating electricity market reform: A framework to assess the congruency of wholesale market reforms in the National Electricity Market*, September 2019