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Project Energy Connect Implementation

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Operator (AEMO) Project Energy Connect directions paper.

About AGL

Proudly Australian for more than 185 years, AGL Energy (AGL) supplies around 4.3 million energy and telecommunications customer services. AGL is committed to providing our customers simple, fair, and accessible essential services as they decarbonise and electrify the way they live, work, and move.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro and solar, batteries and other firming technology, and gas production and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emissions, affordable and smart energy future in line with the goals of our Climate Transition Action Plan.

Current process

- 1. AEMO considers the current process is unsuitable and will restrict efficient dispatch. Are there any additional advantages or disadvantages with the current process identified by stakeholders that could apply in the context of transmission loop flows?**

AGL agrees the current process is not suitable to apply in this circumstance of looped flows.

Generally speaking AGL does not believe the working capital issues for TNSP's should be a factor in deciding the strategy used in dealing with dispatch and negative residues – where these issues arise they should be addressed directly in the process and timing of the relevant cashflows between participants, AEMO and the TNSP to alleviate the problems, not interfering with optimal market operation.

Approach

- 2. AEMO considers regulatory precedent requires negative residue management be retained for periods where IRSR is in deficit around the loop, that this be automated as far as possible, and limited to \$100,000 and any accruing negative residues be allocated to the importing TNSP. For these instances, there would not be any reallocation required. Are there any other approaches to negative residue management AEMO should consider?**

AGL agrees in the first instance maintaining negative residue management in the instance of negative IRSR in total is appropriate as described in the direction paper. It is unlikely any alternative measures would have sufficient time to analyse and implement given the expected PEC timeline.



It would be prudent to review this requirement after some experience in operation of PEC to ensure it is not negatively impacting optimal market operation.

We note that AGL does not support the micro slice model as it would not reflect the physical market and is inconsistent with rest of NEM. We consider that AEMO has made the right decision not to model micro slice model and suggest that if further modelling were able to be completed it would be very beneficial to consider the impact on daytime and nighttime flows. Given the abundance of solar in South Australia there may be a gulf in the direction of flows in that region between daytime exporting to nighttime importing.

- 3. In considering the reallocation approach, AEMO considers a sensible method is to allocate negative residues in proportion to the positive residues on the other interconnectors in the loop. AEMO considers it is preferable that an interconnection that is negative not receive a proportion of the positive residues. Do stakeholders agree?**
- 4. Do stakeholders consider these approaches to be reasonably robust, irrespective of whether negative IRSR is deducted from the payouts to SRA unit holders?**
- 5. Do stakeholders have a different method for the reallocation of negative IRSR that should be considered?**

AGL agrees that in the circumstances that the suggested approach of allocating only negative IRSR in the way described in the example on page 33 in the directions paper is likely the best option. A primary concern of AGL is that the hedging ability of SRAs between regional prices can be maintained and their value forecast reasonably without extreme volatility. While both approaches may be robust it seems more likely that only allocating negative IRSR would better reflect the actual price separation between regions. We also agree that consumers on the importing region are already realising the benefits of counter price flow. As discussed in relation to negative residue management AGL believes this should be reviewed after some experience of operation of PEC to ensure it is fit for purpose.

- 6. Which option best meets the guiding principles identified in Appendix A3? Are the other options that also meet the guiding principles that should be considered?**

No response.

- 7. Should AEMO propose a method that deducts negative IRSR from the payout to SRA unit holders; or reallocates negative IRSR, in proportion to positive IRSR, directly to consumers in the importing regions?**

AGL's view is that this is not a feasible solution. At present, even prior to the implementation of PEC with the significant level of negative residues currently in the system, the adoption of this proposed method would render many of the tranches with values possibly negative in the higher solar generation summer quarters. Even if SRA unit payouts have a floor of zero this method destroys the SRA unit's ability to provide an inter-regional hedge.

If the hedging effectiveness of SRA units is severely adversely affected by unit holders bearing the costs of negative residues it is a possible outcome that all units may not clear at auction which would likely cause additional problems.

- 8. What, if any, other factors need to be included when considering the payment for negative IRSR?**



AGL's view is the approach of the negative IRSR being reallocated to consumers in the importing regions is preferred. As discussed above the hedging quality and predictability of SRA units costs is critical to their usefulness to market participants. AGL believe it's likely the higher cost that participants will pay for the units with this approach likely offsets any negative impacts as described. We understand this may cause issues in cashflow management for TNSPs but would prefer this be resolved through other means similarly to the impacts of negative residue management.

We do recognise as discussed in the paper that deducting the negative IRSR loop from positive legs may in some circumstances better reflect the real value of the units however given the potential negative impacts to SRA quality and value this is something better assessed in the future when the market has some operational experience with PEC.

Implementation

9. The reallocation approach would require updates to AEMO's settlement systems and procedures. What does AEMO need to consider in terms of:

- **Participant or TNSP market and settlement systems?**
- **Timing of implementation?**

No response.

If you have queries re this submission, please contact me on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

Anton King

A/g Senior Manager Wholesale Markets Regulation