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Rebecca Knights

Director Energy Policy and Projects

Department of Premier & Cabinet

Delivered via email

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Dear Rebecca

AGL welcomes the opportunity to provide a submission on the proposed *Draft of the Electricity (General) (Electricity Security Target) Variation Regulations 2017*.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable energy generation in the country. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation, natural gas and storage, as well as renewable sources including hydro, wind, landfill gas, solar and biomass.

In preparing a response, AGL has considered the notes that accompany the draft legislation and understands the key aims of the scheme are to increase competition, put downward pressure on price, and provide system security.

AGL values market mechanisms and policy settings which incentivise local generation. In this context, AGL supports the intent of the Energy Security Target and believes it may encourage more inertia and fault resilient generation, to support system security.

We remain concerned however that as the scheme aims to replace imported electricity with locally generated power, the desired effect of lowering wholesale prices may not be achieved.

Comments on Draft Legislation

With respect to the draft legislation AGL offers the following comments for consideration in order to improve the ability of this legislation to support energy security in the state of South Australia:

- All users of energy within South Australia should be required to submit an appropriate proportion of certificates (44EI):
 - Based on the current drafting, only retailers need to surrender certificates. Those who purchase their energy directly from the NEM are not required to surrender any certificates in respect of their own consumption.
 - This scenario may create a subsidy by exception for large users, which may have unintended consequences for residential customers and small businesses in South Australia.
 - It may introduce a level of uncertainty for retailers around complying with its own obligations (which is outlined in further detail below).



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- Consider whether the requirement for ‘real inertia’ may be achieved through a more defined performance standard (44EC), perhaps in development with AEMO:
 - Including the term ‘real’ may preclude future viable technologies from providing the form of network support that the South Australian Government is seeking to encourage with this legislation.
 - AGL notes that generation must also meet the requirement of being ‘scheduled’ to qualify. Being scheduled requires a power station to fully participate in the dispatch process (that is, have the ability to follow both increasing and decreasing generation targets) as compared with a semi-scheduled generator (which can only participate by conforming to constrained based output targets).
 - Allow certificates, other than those created by the commission, to be held by parties who are not Retailers (44EG):
 - It is written that only a Retailer can hold a certificate. However, in trading certificates an intermediary (such as a financial institution, or a Generator) may need to hold certificates.
 - AGL suggest that the transfer of ownership not specify ownership by a Retailer
 - Establish a formal review process for the target and the pricing:
 - AGL notes that there is no process included in the legislation governing the revision of the price of a default certificate, nor is there any formal process for reviewing the annual target between implementation and 2030.
 - In light of the significant duration of the scheme, AGL recommends the inclusion of a formal review process in the legislation.
 - To enable retailers to undertake the planning required to comply with the legislation and manage any obligation uncertainty they face, AGL suggests that reviews do not alter requirements until the end of the subsequent Financial Year (i.e. a review within the 2018 Financial Year would take effect from the 2020 Financial Year).
 - Include a requirement for the register to include details of the applicable power station, the ‘status’, and the transfer history (44EN):
 - Currently the only detail to be included in the register to identify the creator of a certificate is the ‘energy source’ of the relevant generator. AGL’s view is that this is ambiguous and may lead to issues around the creation of certificates and the auditing process. AGL suggests that a more appropriate identifier for a generator that is creating certificates in the registry would be its DUID (as registered in the NEM).
 - It would be helpful to track the status of certificates in the register. For example, it seems from the proposed register outline that participants will not be able to check whether a particular certificate has been surrendered previously (which is possible in the registry for the Renewable Energy Certificates, for example).
 - AGL believes it would be helpful to include further information in the legislation on failure to submit sufficient certificates and how this comprises a breach of the legislation (44EI).



- Regarding the process of surrendering certificates, AGL proposes that (44EJ):
 - The deadline for surrendering certificates be increased from one month to four months, to allow retailers an appropriate length of time to obtain certificates in line with their liability (this is also more in line with other schemes).
 - AGL note this would require a corresponding change to the Commission reporting timeline, currently proposed as three months (44EK)

Electricity Security Target liability

AGL also notes that if energy users that purchase electricity directly from the NEM are to remain excluded from liability under the scheme (which AGL does not support), AGL suggests that a liability calculation based on a 'percentage' is more appropriate than on a gross 'target'.

AGL understands that the current liability formula proposed is as follows:

CURRENT

$$Retailer A_{Liability} = \left[\frac{Retailer A Load}{Total Retailer Consumption} \right] \times [EST_{YEAR}]$$

Regarding "Total Retailer Consumption", this is calculated through the following:

$$Total Retailer Consumption = Total SA Consumption - Wholesale Market Customers$$

A limited amount of information is available to market participants on the load of 'Wholesale Market Customers.' Therefore, due to the exclusion of consumers purchasing from the NEM from liability under the scheme, the denominator in the liability formula is an unknown figure. This makes it challenging for retailers to forecast accurately their potential end of year exposure.

AGL suggests as potential solutions to this issue, either including Wholesale Market customers, or moving to a percentage based electricity security target (such as 30% of a retailer's customer load).

AGL PROPOSED

$$Retailer A_{Liability} = Retailer A Load \times [EST \%_{YEAR}]$$

AGL thanks the South Australian government for providing the opportunity to provide comments on the draft legislation of the Energy Security Target scheme.

Please contact Kieran O'Leary, Manager Physical Gas Trading on 03 8633 6941 or via email koleary@agl.com.au if you have questions regarding AGL's recommendations.

Yours sincerely,

Richard Wrightson

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