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NEM settlement under zero and negative regional demand conditions – Issues paper

7 December 2020

AGL Energy Limited (**AGL**) welcomes the opportunity to respond to the Australian Energy Market Operator's (**AEMO**) NEM settlement under zero and negative regional demand conditions issues paper.

AEMO Question 1

Do you agree with AEMO's proposed Option 1 short term solution?

One of the issues identified with using the Average AGE of the previous calendar year is the fact that retail customers churn a lot. Therefore, if a period of negative demand occurs and the previous calendar years' average AGE is higher because of customer churn, then you are locked in for 12 months with a potentially poorer reference and cost allocation factor. This is akin to causer pay factor calculations where participants had a poor causer pay factor due to longer averaging.

AEMO Question 2

Considering the options identified, are there other options that may be more appropriate? If so, please describe the option and any risks and benefits?

Alternative Option 1 is a hybrid of Option 1 and 3 where an Average AGE is utilised but calculated over the previous month. This is similar to causer pays calculations, which the market is familiar with, and provides the granularity to account for customer churn in retail customer numbers. This is also more reflective of seasonal demand because the previous reference AGE month would increase or decrease depending on demands and time of the year. This corelates also with solar arrays throughout the various times of the year. Risk is more on the customer side where they may have more churn and end up having a larger cost factor. But at least this is for a month and not a calendar year average.

Alternative Option 2 is to utilise a similar methodology that was used for allocating costs for RERT prior to the new enhanced RERT cost allocation formula. When the market customer RERT cost allocation was utilised, it would trigger based on the intervals utilised and smeared based on the previous 7 days' average market customer demand. If utilised when negative demand conditions trigger, this methodology would provide a much more accurate reflection of a market customers demand, account for churn, adjust for retail demand flex based on seasonal changes, and in particular for a large major industrial customers, provides them relief when they have major maintenance outages. Risk is more focused on AEMO's systems to conduct the more regular average look back of market customer loads.

If you have any queries about this submission, please contact Shevy Moss-Feiglin on (02) 8633 7880 or smossfeiglin@agl.com.au.

Yours sincerely,

Chris Streets

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