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Project energy connect implementation paper

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Operator (AEMO) Project energy connect implementation paper.

AGL is a leading integrated essential service provider, with a proud 185-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

Our responses to the implementation paper questions are below.

Market integration

1. *Do stakeholder have any questions on the planned activities associated with the market integration of Project Energy Connect (PEC)?*

AGL considers that the integration of PEC and the treatment of Settlement Residue Auction (SRA) units will require comprehensive power system modelling to accurately determine the likely impact of the loop flows that will be formed by PEC. The New Zealand and US approaches to the management of loop flows are not particularly helpful given their network topology does not mirror the NEM. The impact of loop flows caused by PEC is particularly challenging to predict as the capacity of the interconnectors which make up the loop are so similar and therefore the direction of flows is likely to vary frequently, even within a day. We therefore suggest power system modelling is essential and should be made public and available to inform a further round of consultation on PEC implementation.

We are strongly opposed to the implementation of the micro-slice model as it would not reflect the physical market and would not be consistent with the rest of the NEM. Even on an interim basis we consider implementing this model would not be appropriate given its complexity and the cost and time required to implement.

Negative Settlement Residue (NSR) Options

2. *Which option best meets the guiding principles identified in Section 4.2.5?*
3. *Are there further material advantages or disadvantages that have not been listed for any of the options outlined in this section?*
4. *If NSR were to accrue to a Trader, what would be the effect of introducing prudential arrangements for Traders and how would this impact on participation in SRA?*
5. *Do stakeholders have any other suggestions or alternative approaches to the management of NSR that will occur with the implementation of PEC?*

Option 1(a), removal of NSR clamping with all NSRs still allocated to the TNSP, is the best option. While this will lead to TNSPs having to manage more NSRs, the flows should balance out across the loop and TNSPs are therefore best place to manage this risk.

Option 1(b) and (c), removal of clamping with the allocation of NSRs to some or all traders, are inferior options to option 1(a) because we expect that many smaller traders would be unable to manage the risk of NSR exposure and therefore these options would lead to reduced participation in SRAs.

Option 2, bundling of SRA units, is not a suitable option as it will undermine the efficient functioning of SRAs. Mandatory bundling will limit the availability of units and lead to reduced auction participation. We agree with AEMO that if traders see NSR as a risk they can voluntarily bundle units as part of their auction purchases.

Option 3, residue reallocation for SRA, would likely be too complex to implement. Nevertheless we would appreciate the opportunity to review AEMO modelling to consider this option more fully.

Option 4, financial transmission right arrangement, is far too complex and costly a change to a mature market which has evolved without financial transmission rights and locational marginal pricing.

Principles

6. *Should any change to NSR management is applied to loop flows only, or more broadly to all interconnector flows? While it may be possible to designate and define 'loop flow' conditions, there is a question of whether the broader principles adopted are appropriate for all flows.*

Changes to NSR management should apply to all interconnector flows for consistency and as each region of the NEM will be impacted physically to some extent by the loop flows.

7. *What factors should be considered with the timing and approach of the auction of PEC SRA units?*

We suggest early communication of changes and a long lead time to any changes will reduce the risk of undermining SRAs.

8. *What consideration needs to be given as to the treatment of units already auctioned should changes associated with PEC go ahead?*

We suggest that already auctioned units should not be modified or re-auctioned regardless of changes due the implementation of PEC as it could set a precedent that undermines future auction confidence. There are many factors that can change the value of SRA units (e.g. fuel price caps, generator exits) and we see no reason to single out PEC implementation. Further, we note that PEC implementation is a future issue, subject to this consultation, and with a significant lead in time and therefore it should not be entirely unexpected by traders.

Reform

9. *How should changes to NSR management be considered and implemented in respect of the ESB's concurrent reform activity for congestion management?*

The proposed Congestion Relief Market and Congestion Management Model will not resolve the PEC implementation issues. We suggest that implementing Option 1(a) would not have significant interaction issues with either the CRM or CMM.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

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