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Mr Mark Feather
General Manager, Policy & Performance
Australian Energy Regulator
GPO Box 520
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26 June 2020

Dear Mark,

Guidelines to make the integrated system plan actionable

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Regulator (AER) draft guidelines to make the integrated system plan actionable.

The AER has stated that a key element of its approach to the draft guidelines is that AEMO needs flexibility in selecting an optimal development path given the uncertainty around the future of the energy market. AGL accepts this rationale, and notes that the AER also states that the AER must provide flexibility to AEMO in its selection. However, the draft Cost Benefit Analysis (CBA) guidelines state that:

AEMO has full flexibility in its selection, subject to clause 5.22.5(e)(3) of the NER, which states the optimal development path must have a positive net benefit in the most likely scenario. That is, AEMO can rely fully, partly or not at all on the results from any decision making approach it uses.

AGL considers that this represents an expansion on the flexibility contemplated in the rules, and therefore the draft CBA guidelines has the effect of weakening the certainty and economic rigor otherwise required by the rules. We consider full flexibility, and the ability to ignore the results from the decision making approaches used, to be contrary to the clause 5.22.5(e)(1) requirement that the guidelines recognise the risk of uncertainty. The guidelines already include considerable flexibility for AEMO in its selection of the optimal development path through the treatment of risk and AGL therefore recommends AEMO's flexibility be defined more narrowly on this basis.

Under clause 5.22.5(d)(5) of the NER, the CBA guidelines must describe the framework for AEMO to select the optimal development path, including the assessment of the costs and benefits of various development paths across different scenarios. The draft CBA guidelines require AEMO to assess and rank the net economic benefit of each development path in each scenario which is consistent with this clause. However, in selecting the optimal development path the guidelines require AEMO to use both the net economic benefit assessment and 'professional judgement' in making their selection. AGL considers that the inclusion of professional judgment in the selection process adds an unnecessarily element of discretion and uncertainty to a selection process which should instead be based on the net economic benefit and an assessment of the appropriate treatment of risk. We therefore recommend a change to the CBA guidelines on this basis.

The CBA guidelines provide guidance on the market benefits and costs AEMO must consider in assessing the net economic benefit of each development path. To ensure AEMO complete this assessment effectively, AGL recommends that the AER include a requirement in the guidelines that this assessment be subject to AER review. Even if the AER left it open to AEMO to use their



discretion in adopting the advice provided by the AER, this requirement would improve the economic rigour of the net economic benefit assessment. Crucially, such a requirement would minimise consumer investment risk by allowing AEMO to benefit from AER's experience and expertise as the economic regulator.

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

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation