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Mr. Peter Adams
General Manager, Wholesale Markets
Australian Energy Regulator
GPO Box 3131
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AER Reference: 60382-D17/178523

Submission via wholesaleperformance@aer.gov.au

Dear Mr. Adams,

Wholesale electricity market performance monitoring – Update and Consultation Paper

AGL welcomes the opportunity to make a submission to the Australian Energy Regulator's (AER) *Wholesale electricity market performance monitoring, Update and consultation paper, December 2017* (Consultation Paper).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional generation fuel sources as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.6 million electricity and gas customers throughout Australia.

The AER's summary of current market conditions, set out in the Draft 2018 Focus, is an appropriate foundation to inform the AER's analysis of how well the wholesale market is functioning and AGL endorses this aspect of the AER's proposed approach.

However, AGL reiterates its position, as expressed our 30 October 2017 submission that the wholesale electricity market is one geographic market, and moreover that spot market products and services are indivisible parts of the market, given their impact on wholesale prices. AGL appreciates the AER's openness to potentially alter its market definition where considered appropriate.

AGL anticipates that there will be much to be gained from the AER's March 2018 advice to the COAG Energy Council on the closure of Hazelwood, which is mentioned in the Consultation Paper.

The sudden exit of Hazelwood from the market has increased the focus on market conduct of remaining participants. This has been driven by the increased burden placed on neighbouring states to provide needed supply to Victoria. As aging generators continue to exit the market, it is expected that the behaviour of remaining participants will adapt in response, to ensure the supply/demand balance is maintained. AGL considers the AER's wholesale market monitoring presents a timely opportunity to comprehensively



measure the impact of sudden generator exit compared to planned, orderly exits, such as that of Liddell in 2022.

On barriers to entry, regulatory uncertainty is surely the biggest concern at present, with the interplay between the National Energy Guarantee (NEG), state government interventions, and the significant move to five-minute settlement. Investment requires a degree of certainty and this is arguably more important for potential market entrants, who do not have an existing foothold in the market by which to manage risks. AGL considers that this should be a key area of focus for the AER's consideration of this issue.

The AER is also considering whether market power and vertical integration present barriers to entry, or otherwise distort the market. AGL has already provided its views to the AER on the benefits of vertical integration, and the possibility that regulators may misdiagnose market power. AGL reiterates its earlier views and notes that much work is already being undertaken by the ACCC on these matters through its Gas Inquiry and Electricity Supply and Prices Inquiry. AGL anticipates that the AER will not be re-examining the matters that the ACCC is presently investigating.

AGL thanks the AER for the opportunity to contribute to this consultation process. Should you have any questions in relation to this submission, please contact Kate Stoeckel, Senior Manager Regulatory Strategy, at kstoeckel@agl.com.au or (03) 8633 7816.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux'.

Elizabeth Molyneux

General Manager Energy Market Regulation